



ANNUAL STATEMENT

For the Year Ended December 31, 2007  
of the Condition and Affairs of the

BLUE CROSS BLUE SHIELD OF MICHIGAN

NAIC Group Code.....572, 572	NAIC Company Code..... 54291	Employer's ID Number..... 38-2069753
(Current Period) (Prior Period)		
Organized under the Laws of Michigan	State of Domicile or Port of Entry Michigan	Country of Domicile US
Licensed as Business Type.....Hospital, Medical & Dental Service or Indemnity	Is HMO Federally Qualified? Yes [ ] No [X]	
Incorporated/Organized..... February 1, 1975	Commenced Business..... January 1, 1975	
Statutory Home Office	600 Lafayette East..... Detroit ..... MI ..... 48226 (Street and Number) (City or Town, State and Zip Code)	
Main Administrative Office	600 Lafayette East..... Detroit ..... MI ..... 48226 (Street and Number) (City or Town, State and Zip Code)	313-225-9000 (Area Code) (Telephone Number)
Mail Address	600 Lafayette East..... Detroit ..... MI ..... 48226 (Street and Number or P. O. Box) (City or Town, State and Zip Code)	
Primary Location of Books and Records	600 Lafayette East..... Detroit ..... MI ..... 48226 (Street and Number) (City or Town, State and Zip Code)	313-225-9000 (Area Code) (Telephone Number)
Internet Website Address	http://bcbsm.com/	
Statutory Statement Contact	Kenneth A. Bluhm (Name) kbluhm@bcbsm.com (E-Mail Address)	313-225-9095 (Area Code) (Telephone Number) (Extension) 313-983-2358 (Fax Number)

OFFICERS

Name	Title	Name	Title
1. DANIEL J. LOEPP	President and CEO	2. MARK R. BARTLETT	Executive Vice President and CFO
3. CAROLYNN WALTON	Vice President and Treasurer	4. TRICIA A. KEITH	VP & Corporate Secretary

OTHER

J. PAUL AUSTIN	Chief Actuarial Officer	LISA S. DEMOSS	SVP, General Counsel
ELIZABETH R. HARR	Senior Vice President	ROBERT MILEWSKI	Senior Vice President
KEVIN L. SEITZ	Executive Vice President	LESLIE A. VIEGAS	Executive Vice President
THOMAS L. SIMMER	Chief Medical Officer	JEANNE H. CARLSON	Senior Vice President
KENNETH R. DALLAFIOR	Senior Vice President	DARRELL E. MIDDLETON	Senior Vice President

DIRECTORS OR TRUSTEES

JAMES G. AGEE	JON E. BARFIELD	WILLIAM H. BLACK	JOHN E. BODELL D.O.
ARLENE R. BRENNAN RN	TERRY BURNS	BRIAN M. CONNOLLY	PATRICK J. DEVLIN
MARK T. GAFFNEY	CHARLES M. GAYNEY	THOMAS J. HADRYCH	JOHN M. HAMILTON
TEOLA P. HUNTER	LILA R. JOHNSON	SPENCER C. JOHNSON	JOANNE LAFLECHE-GALLAGHER
MELVIN L. LARSEN	DANIEL J. LOEPP	JOHN M. MACKEIGAN MD	GARY J. MCINERNEY
LIVIO MEZZA	PETER T. MULLER MD	ROBERT A. PATZER	RENEE C. PIPIS
CALVIN T. RAPSON	JAMES W. RICHARDS RPH	IRIS K. SALTERS	JAMES U. SETTLES
RICHARD SHOEMAKER	DONALD E. STROUD DDS	GREGORY A. SUDDERTH	S. MARTIN TAYLOR
GARY H. TORGOW	JANICE K. UHLIG	JOHN VANDER MOLEN	

State of... Michigan.....  
County of....Wayne.

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy of the enclosed statement (except for formatting differences due to electronic filing). The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature) DANIEL J. LOEPP	(Signature) MARK R. BARTLETT	(Signature) CAROLYNN WALTON
1. (Printed Name) President and CEO	2. (Printed Name) Executive Vice President and CFO	3. (Printed Name) Vice President and Treasurer
(Title)	(Title)	(Title)

Subscribed and sworn to before me	a. Is this an original filing?	Yes [X] No [ ]
This _____ day of _____	b. If no	1. State the amendment number _____
		2. Date filed _____
		3. Number of pages attached _____

BLUE CROSS BLUE SHIELD OF MICHIGAN  
ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D).....	2,729,172,097		2,729,172,097	2,745,071,344
2. Stocks (Schedule D):				
2.1 Preferred stocks.....	4,813,615		4,813,615	1,778,449
2.2 Common stocks.....	1,939,698,506	313,348,105	1,626,350,401	1,483,642,116
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....	193,473,210		193,473,210	201,107,249
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....(198,159,544), Sch. E-Part 1), cash equivalents (\$.....99,167,719, Sch. E-Part 2) and short-term investments (\$.....172,900,288, Sch. DA).....	73,908,463		73,908,463	(95,494,281)
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets (Schedule BA).....	64,840,064	7,309,570	57,530,494	38,956,779
8. Receivables for securities.....	55,257,611		55,257,611	260,237,898
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	5,061,163,566	320,657,675	4,740,505,891	4,635,299,554
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	30,194,094		30,194,094	35,056,680
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection.....	26,399,948	424,556	25,975,392	21,175,797
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....	1,242,718	167,046	1,075,672	1,255,414
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....			0	
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....	246,597,000		246,597,000	178,038,000
16.1 Current federal and foreign income tax recoverable and interest thereon.....	21,286,630		21,286,630	8,916,223
16.2 Net deferred tax asset.....	148,786,633	85,735,541	63,051,092	42,634,454
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....	180,148,110	142,476,073	37,672,037	30,704,027
19. Furniture and equipment, including health care delivery assets (\$.....0).....	17,829,388	17,829,388	0	
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	23,192,305		23,192,305	33,218,524
22. Health care (\$.....88,779,572) and other amounts receivable.....	119,014,273	3,617,412	115,396,861	102,332,624
23. Aggregate write-ins for other than invested assets.....	270,030,883	156,825,571	113,205,312	149,255,967
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	6,145,885,548	727,733,262	5,418,152,286	5,237,887,264
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	6,145,885,548	727,733,262	5,418,152,286	5,237,887,264

DETAILS OF WRITE-INS				
0901.....			0	
0902.....			0	
0903.....			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Miscellaneous Accounts Receivable.....	5,463,501	5,463,501	0	5,240,633
2302. Prepaid and Other Assets.....	4,651,742	4,651,742	0	
2303. Advances to Providers.....	168,072,592	54,867,280	113,205,312	117,833,094
2398. Summary of remaining write-ins for Line 23 from overflow page.....	91,843,048	91,843,048	0	26,182,240
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	270,030,883	156,825,571	113,205,312	149,255,967

BLUE CROSS BLUE SHIELD OF MICHIGAN  
LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....0 reinsurance ceded).....	..651,018,500	.....	..651,018,500	.....608,972,154
2. Accrued medical incentive pool and bonus amounts.....	.....18,311,778	.....	.....18,311,778	.....4,100,495
3. Unpaid claims adjustment expenses.....	.....77,503,817	.....	.....77,503,817	.....58,886,186
4. Aggregate health policy reserves.....	.....952,592,382	.....	.....952,592,382	.....825,725,330
5. Aggregate life policy reserves.....	.....	.....	.....0	.....
6. Property/casualty unearned premium reserve.....	.....	.....	.....0	.....
7. Aggregate health claim reserves.....	.....	.....	.....0	.....
8. Premiums received in advance.....	.....	.....	.....0	.....
9. General expenses due or accrued.....	.....156,219,520	.....	.....156,219,520	.....150,865,694
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....	.....	.....	.....0	.....16,754,762
10.2 Net deferred tax liability.....	.....	.....	.....0	.....
11. Ceded reinsurance premiums payable.....	.....	.....	.....0	.....
12. Amounts withheld or retained for the account of others.....	.....15,244,978	.....	.....15,244,978	.....12,858,835
13. Remittances and items not allocated.....	.....4,400,728	.....	.....4,400,728	.....4,113,439
14. Borrowed money (including \$.....0 current) and interest thereon \$.....392,554 (including \$.....0 current).....	.....196,392,554	.....	.....196,392,554	.....46,118,146
15. Amounts due to parent, subsidiaries and affiliates.....	.....7,975,085	.....	.....7,975,085	.....14,921,497
16. Payable for securities.....	.....101,068,155	.....	.....101,068,155	.....302,054,376
17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....	.....	.....	.....0	.....
18. Reinsurance in unauthorized companies.....	.....	.....	.....0	.....
19. Net adjustments in assets and liabilities due to foreign exchange rates.....	.....	.....	.....0	.....
20. Liability for amounts held under uninsured plans.....	.....199,989,220	.....	.....199,989,220	.....178,813,754
21. Aggregate write-ins for other liabilities (including \$.....0 current).....	.....631,346,491	.....0	.....631,346,491	.....512,258,412
22. Total liabilities (Lines 1 to 21).....	..3,012,063,208	.....0	..3,012,063,208	.....2,736,443,080
23. Aggregate write-ins for special surplus funds.....	..XXX.....	..XXX.....	.....0	.....0
24. Common capital stock.....	..XXX.....	..XXX.....	.....	.....
25. Preferred capital stock.....	..XXX.....	..XXX.....	.....	.....
26. Gross paid in and contributed surplus.....	..XXX.....	..XXX.....	.....	.....
27. Surplus notes.....	..XXX.....	..XXX.....	.....	.....
28. Aggregate write-ins for other than special surplus funds.....	..XXX.....	..XXX.....	.....0	.....0
29. Unassigned funds (surplus).....	..XXX.....	..XXX.....	..2,406,089,078	.....2,501,444,184
30. Less treasury stock at cost: 30.1 .....0.000 shares common (value included in Line 24 \$.....0)..... 30.2 .....0.000 shares preferred (value included in Line 25 \$.....0).....	..XXX..... ..XXX.....	..XXX..... ..XXX.....	.....	.....
31. Total capital and surplus (Lines 23 to 29 minus Line 30).....	..XXX.....	..XXX.....	..2,406,089,078	.....2,501,444,184
32. Total liabilities, capital and surplus (Lines 22 and 31).....	..XXX.....	..XXX.....	..5,418,152,286	.....5,237,887,264

DETAILS OF WRITE-INS

2101. Postretirement Liabilities.....	.....361,551,922	.....	.....361,551,922	.....321,626,982
2102. Liability for Uncashed Checks.....	.....11,743,897	.....	.....11,743,897	.....9,754,576
2103. Advances to Providers.....	.....134,496,222	.....	.....134,496,222	.....148,523,258
2198. Summary of remaining write-ins for Line 21 from overflow page.....	.....123,554,450	.....0	.....123,554,450	.....32,353,596
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....	.....631,346,491	.....0	.....631,346,491	.....512,258,412
2301. ....	..XXX.....	..XXX.....	.....	.....
2302. ....	..XXX.....	..XXX.....	.....	.....
2303. ....	..XXX.....	..XXX.....	.....	.....
2398. Summary of remaining write-ins for Line 23 from overflow page.....	.....XXX.....	.....XXX.....	.....0	.....0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	.....XXX.....	.....XXX.....	.....0	.....0
2801. ....	..XXX.....	..XXX.....	.....	.....
2802. ....	..XXX.....	..XXX.....	.....	.....
2803. ....	..XXX.....	..XXX.....	.....	.....
2898. Summary of remaining write-ins for Line 28 from overflow page.....	.....XXX.....	.....XXX.....	.....0	.....0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....	.....XXX.....	.....XXX.....	.....0	.....0

BLUE CROSS BLUE SHIELD OF MICHIGAN  
STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX.....	30,992,553	30,854,629
2. Net premium income (including \$.....0 non-health premium income).....	XXX.....	6,184,769,645	5,865,134,213
3. Change in unearned premium reserves and reserve for rate credits.....	XXX.....	(15,590,052)	(59,714,675)
4. Fee-for-service (net of \$.....0 medical expenses).....	XXX.....		
5. Risk revenue.....	XXX.....		
6. Aggregate write-ins for other health care related revenues.....	XXX.....	0	0
7. Aggregate write-ins for other non-health revenues.....	XXX.....	0	0
8. Total revenues (Lines 2 to 7).....	XXX.....	6,169,179,593	5,805,419,538
<b>Hospital and Medical:</b>			
9. Hospital/medical benefits.....		4,617,302,681	4,181,080,256
10. Other professional services.....		77,640,078	82,377,429
11. Outside referrals.....			
12. Emergency room and out-of-area.....			
13. Prescription drugs.....		955,481,679	918,626,751
14. Aggregate write-ins for other hospital and medical.....	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts.....		34,962,814	23,137,879
16. Subtotal (Lines 9 to 15).....	0	5,685,387,252	5,205,222,315
<b>Less:</b>			
17. Net reinsurance recoveries.....			
18. Total hospital and medical (Lines 16 minus 17).....	0	5,685,387,252	5,205,222,315
19. Non-health claims (net).....			
20. Claims adjustment expenses, including \$....84,422,655 cost containment expenses.....		214,473,405	179,680,979
21. General administrative expenses.....		476,968,610	446,184,971
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....		111,277,000	(26,477,000)
23. Total underwriting deductions (Lines 18 through 22).....	0	6,488,106,267	5,804,611,265
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX.....	(318,926,674)	808,273
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		204,490,509	192,139,534
26. Net realized capital gains or (losses) less capital gains tax of \$....4,899,366.....		19,597,465	(10,307,679)
27. Net investment gains or (losses) (Lines 25 plus 26).....	0	224,087,974	181,831,855
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....0) (amount charged off \$.....0)].....			
29. Aggregate write-ins for other income or expenses.....	0	70,167,452	11,930,239
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX.....	(24,671,248)	194,570,367
31. Federal and foreign income taxes incurred.....	XXX.....	(40,855,673)	35,644,246
32. Net income (loss) (Lines 30 minus 31).....	XXX.....	16,184,425	158,926,121

DETAILS OF WRITE-INS			
0601. ....	XXX.....		
0602. ....	XXX.....		
0603. ....	XXX.....		
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX.....	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	XXX.....	0	0
0701. ....	XXX.....		
0702. ....	XXX.....		
0703. ....	XXX.....		
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX.....	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	XXX.....	0	0
1401. ....			
1402. ....			
1403. ....			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	0	0
2901. Miscellaneous Income.....		70,167,452	11,930,239
2902. ....			
2903. ....			
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0	70,167,452	11,930,239

BLUE CROSS BLUE SHIELD OF MICHIGAN  
STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	2,501,444,184	2,461,020,869
34. Net income or (loss) from Line 32.....	16,184,425	158,926,121
35. Change in valuation basis of aggregate policy and claim reserves.....		
36. Change in net unrealized capital gains and (losses) less capital gains tax of \$.....0.....	118,293,879	72,044,156
37. Change in net unrealized foreign exchange capital gain or (loss).....		
38. Change in net deferred income tax.....	28,742,976	3,476,043
39. Change in nonadmitted assets.....	(258,576,386)	(195,293,005)
40. Change in unauthorized reinsurance.....		
41. Change in treasury stock.....		
42. Change in surplus notes.....		
43. Cumulative effect of changes in accounting principles.....		
44. Capital changes:		
44.1 Paid in.....		
44.2 Transferred from surplus (Stock Dividend).....		
44.3 Transferred to surplus.....		
45. Surplus adjustments:		
45.1 Paid in.....		
45.2 Transferred to capital (Stock Dividend).....		
45.3 Transferred from capital.....		
46. Dividends to stockholders.....		
47. Aggregate write-ins for gains or (losses) in surplus.....	0	1,270,000
48. Net change in capital and surplus (Lines 34 to 47).....	(95,355,106)	40,423,315
49. Capital and surplus end of reporting period (Line 33 plus 48).....	2,406,089,078	2,501,444,184

DETAILS OF WRITE-INS		
4701. Additional Pension Liability.....		1,270,000
4702. ....		
4703. ....		
4798. Summary of remaining write-ins for Line 47 from overflow page.....	0	0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	0	1,270,000

BLUE CROSS BLUE SHIELD OF MICHIGAN  
CASH FLOW

	1 Current Year	2 Prior Year
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	6,190,482,424	5,842,436,189
2. Net investment income.....	223,792,024	182,723,802
3. Miscellaneous income.....	160,355,769	80,997,228
4. Total (Lines 1 through 3).....	6,574,630,217	6,106,157,219
5. Benefit and loss related payments.....	5,568,187,854	5,112,065,670
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	736,029,558	704,775,320
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	26,026,783	31,498,032
10. Total (Lines 5 through 9).....	6,330,244,195	5,848,339,022
11. Net cash from operations (Line 4 minus Line 10).....	244,386,022	257,818,197
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	4,361,497,112	4,798,867,854
12.2 Stocks.....	446,401,652	187,482,913
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....		
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....		
12.7 Miscellaneous proceeds.....	3,994,067	
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	4,811,892,831	4,986,350,767
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	4,359,572,663	5,002,703,978
13.2 Stocks.....	564,459,088	559,123,323
13.3 Mortgage loans.....		
13.4 Real estate.....	18,128,065	33,133,485
13.5 Other invested assets.....	19,010,110	11,833,448
13.6 Miscellaneous applications.....		165,800,762
13.7 Total investments acquired (Lines 13.1 to 13.6).....	4,961,169,926	5,772,594,996
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 and 14).....	(149,277,095)	(786,244,229)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		
16.3 Borrowed funds.....	150,274,408	46,118,146
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	(75,980,591)	(57,653,539)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	74,293,817	(11,535,393)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	169,402,744	(539,961,425)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	(95,494,281)	444,467,144
19.2 End of year (Line 18 plus Line 19.1).....	73,908,463	(95,494,281)
Note: Supplemental disclosures of cash flow information for non-cash transactions:		
20.0001 .....	.....	.....



UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

		1	2	3	4
Line of Business		Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
1.	Comprehensive (hospital and medical).....	4,783,594,712			4,783,594,712
2.	Medicare supplement.....	229,489,174			229,489,174
3.	Dental only.....	72,500,657			72,500,657
4.	Vision only.....	13,203,415			13,203,415
5.	Federal employees health benefits plan.....	318,991,899			318,991,899
6.	Title XVIII - Medicare.....	545,730,597			545,730,597
7.	Title XIX - Medicaid.....				0
8.	Other health.....	221,259,191			221,259,191
9.	Health subtotal (Lines 1 through 8).....	6,184,769,645	0	0	6,184,769,645
10.	Life.....				0
11.	Property/casualty.....				0
12.	Totals (Lines 9 to 11).....	6,184,769,645	0	0	6,184,769,645



**UNDERWRITING AND INVESTMENT EXHIBIT**  
**PART 2 - CLAIMS INCURRED DURING THE YEAR**

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct.....	5,608,378,092	4,184,954,078	383,687,968	62,539,262	10,896,184	283,872,284	480,331,405		202,096,911	
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	5,608,378,092	4,184,954,078	383,687,968	62,539,262	10,896,184	283,872,284	480,331,405	0	202,096,911	0
2. Paid medical incentive pools and bonuses.....	20,751,531	20,751,531								
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct.....	651,018,500	396,048,545	59,686,108	3,569,829	730,133	34,449,753	112,762,072		43,772,060	
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	651,018,500	396,048,545	59,686,108	3,569,829	730,133	34,449,753	112,762,072	0	43,772,060	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct.....	0									
4.2 Reinsurance assumed.....	0									
4.3 Reinsurance ceded.....	0									
4.4 Net.....	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	18,311,778	18,311,778								
6. Net healthcare receivables (a).....	0									
7. Amounts recoverable from reinsurers December 31, current year.....	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct.....	608,972,154	421,313,091	62,118,436	3,374,693	682,967	30,334,270	57,629,732		33,518,965	
8.2 Reinsurance assumed.....	0									
8.3 Reinsurance ceded.....	0									
8.4 Net.....	608,972,154	421,313,091	62,118,436	3,374,693	682,967	30,334,270	57,629,732	0	33,518,965	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct.....	0									
9.2 Reinsurance assumed.....	0									
9.3 Reinsurance ceded.....	0									
9.4 Net.....	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year.....	4,100,495	4,100,495								
11. Amounts recoverable from reinsurers December 31, prior year.....	0									
12. Incurred benefits:										
12.1 Direct.....	5,650,424,438	4,159,689,532	381,255,640	62,734,398	10,943,350	287,987,767	535,463,745	0	212,350,006	0
12.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0	0
12.4 Net.....	5,650,424,438	4,159,689,532	381,255,640	62,734,398	10,943,350	287,987,767	535,463,745	0	212,350,006	0
13. Incurred medical incentive pools and bonuses.....	34,962,814	34,962,814	0	0	0	0	0	0	0	0

(a) Excludes \$.00 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Reported in process of adjustment:										
1.1 Direct.....	14,436,867	3,852,270	578,026	85,716	31	333,626	8,989,397		597,801	
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	14,436,867	3,852,270	578,026	85,716	31	333,626	8,989,397	0	597,801	0
2. Incurred but unreported:										
2.1 Direct.....	636,581,633	392,196,275	59,108,082	3,484,113	730,102	34,116,127	103,772,675		43,174,259	
2.2 Reinsurance assumed.....	0									
2.3 Reinsurance ceded.....	0									
2.4 Net.....	636,581,633	392,196,275	59,108,082	3,484,113	730,102	34,116,127	103,772,675	0	43,174,259	0
3. Amounts withheld from paid claims and capitations:										
3.1 Direct.....	0									
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	0	0	0	0	0	0	0	0	0	0
4. Totals:										
4.1 Direct.....	651,018,500	396,048,545	59,686,108	3,569,829	730,133	34,449,753	112,762,072	0	43,772,060	0
4.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	0	0	0	0	0	0	0	0	0	0
4.4 Net.....	651,018,500	396,048,545	59,686,108	3,569,829	730,133	34,449,753	112,762,072	0	43,772,060	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical).....	.....373,085,364	.....3,856,011,286	.....18,609,839	.....377,438,706	.....391,695,203	.....421,313,091
2. Medicare supplement.....	.....53,494,636	.....330,193,332	.....649,954	.....59,036,154	.....54,144,590	.....62,118,436
3. Dental only.....	.....3,131,692	.....59,407,570	.....37,998	.....3,531,831	.....3,169,690	.....3,374,693
4. Vision only.....	.....701,724	.....10,194,460	.....2,239	.....727,894	.....703,963	.....682,967
5. Federal employees health benefits plan.....	.....25,950,721	.....257,921,563	.....1,887,250	.....32,562,503	.....27,837,971	.....30,334,270
6. Title XVIII - Medicare.....	.....44,972,446	.....435,358,959	.....544,033	.....112,218,039	.....45,516,479	.....57,629,732
7. Title XIX - Medicaid.....	.....	.....	.....	.....	.....0	.....
8. Other health.....	.....24,899,035	.....177,197,875	.....3,272,292	.....40,499,768	.....28,171,327	.....33,518,965
9. Health subtotal (Lines 1 to 8).....	.....526,235,618	.....5,126,285,045	.....25,003,605	.....626,014,895	.....551,239,223	.....608,972,154
10. Healthcare receivables (a).....	.....	.....44,142,572	.....	.....	.....0	.....
11. Other non-health.....	.....	.....	.....	.....	.....0	.....
12. Medical incentive pools and bonus amounts.....	.....	.....20,751,531	.....	.....18,311,778	.....0	.....4,100,495
13. Totals (Lines 9 - 10 + 11 + 12).....	.....526,235,618	.....5,102,894,004	.....25,003,605	.....644,326,673	.....551,239,223	.....613,072,649

(a) Excludes \$.0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....485,742	.....9,229	.....399	.....(400)	.....
2. 2003.....	.....4,289,193	.....447,442	.....1,374	.....626	.....(181)
3. 2004.....	.....XXX	.....4,293,367	.....431,206	.....1,448	.....341
4. 2005.....	.....XXX	.....XXX	.....4,350,506	.....438,737	.....2,723
5. 2006.....	.....XXX	.....XXX	.....XXX	.....4,700,487	.....523,351
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....5,102,894

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....518,954	.....88,640	.....2,941	.....(572)	.....
2. 2003.....	.....4,832,464	.....393,961	.....5,916	.....673	.....(168)
3. 2004.....	.....XXX	.....4,852,568	.....481,421	.....17,403	.....397
4. 2005.....	.....XXX	.....XXX	.....4,273,747	.....443,121	.....23,648
5. 2006.....	.....XXX	.....XXX	.....XXX	.....4,744,598	.....484,329
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....5,177,181

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expense	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....	.....5,554,675	.....4,738,454	.....35,709	.....0.8	.....4,774,163	.....85.9	.....	.....	.....4,774,163	.....85.9
2. 2004.....	.....5,518,401	.....4,726,362	.....35,617	.....0.8	.....4,761,979	.....86.3	.....178	.....20	.....4,762,177	.....86.3
3. 2005.....	.....5,523,155	.....4,791,966	.....36,113	.....0.8	.....4,828,079	.....87.4	.....2,926	.....339	.....4,831,344	.....87.5
4. 2006.....	.....5,805,420	.....5,223,838	.....39,367	.....0.8	.....5,263,205	.....90.7	.....21,899	.....2,535	.....5,287,639	.....91.1
5. 2007.....	.....6,169,179	.....5,102,894	.....38,455	.....0.8	.....5,141,349	.....83.3	.....644,327	.....74,609	.....5,860,285	.....95.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....408,014	.....5,364	.....(81)	.....(534)	.....
2. 2003.....	.....3,766,782	.....370,089	.....(15)	.....451	.....(121)
3. 2004.....	.....XXX	.....3,696,773	.....359,904	.....(15)	.....169
4. 2005.....	.....XXX	.....XXX	.....3,688,185	.....359,904	.....1,287
5. 2006.....	.....XXX	.....XXX	.....XXX	.....3,750,008	.....371,750
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....3,832,620

SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....432,499	.....79,381	.....2,409	.....(710)	.....
2. 2003.....	.....4,197,610	.....311,797	.....4,166	.....485	.....(109)
3. 2004.....	.....XXX	.....4,142,178	.....403,393	.....(247)	.....167
4. 2005.....	.....XXX	.....XXX	.....3,625,719	.....361,007	.....1,443
5. 2006.....	.....XXX	.....XXX	.....XXX	.....3,742,790	.....335,692
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....3,857,460

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....	.....4,955,616	.....4,137,186	.....31,178	.....0.8	.....4,168,364	.....84.1	.....	.....	.....4,168,364	.....84.1
2. 2004.....	.....4,880,275	.....4,056,831	.....30,573	.....0.8	.....4,087,404	.....83.8	.....142	.....16	.....4,087,562	.....83.8
3. 2005.....	.....4,845,912	.....4,049,376	.....30,517	.....0.8	.....4,079,893	.....84.2	.....2,695	.....312	.....4,082,900	.....84.3
4. 2006.....	.....4,789,834	.....4,121,758	.....31,062	.....0.8	.....4,152,820	.....86.7	.....15,773	.....1,826	.....4,170,419	.....87.1
5. 2007.....	.....4,791,046	.....3,832,620	.....28,883	.....0.8	.....3,861,503	.....80.6	.....395,750	.....45,825	.....4,303,078	.....89.8

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....42,286	.....1,365	.....243	.....42	.....
2. 2003.....	.....245,827	.....43,357	.....708	.....89	.....(31)
3. 2004.....	.....XXX	.....285,068	.....44,131	.....816	.....(73)
4. 2005.....	.....XXX	.....XXX	.....310,622	.....49,224	.....305
5. 2006.....	.....XXX	.....XXX	.....XXX	.....323,387	.....53,293
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....330,193

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....43,887	.....5,149	.....238	.....37	.....
2. 2003.....	.....298,997	.....41,376	.....776	.....81	.....(27)
3. 2004.....	.....XXX	.....342,284	.....41,991	.....799	.....(62)
4. 2005.....	.....XXX	.....XXX	.....310,716	.....44,321	.....283
5. 2006.....	.....XXX	.....XXX	.....XXX	.....333,402	.....46,989
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....334,072

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....	.....202,164	.....289,950	.....2,185	.....0.8	.....292,135	.....144.5	.....	.....	.....292,135	.....144.5
2. 2004.....	.....214,973	.....329,942	.....2,486	.....0.8	.....332,428	.....154.6	.....2	.....	.....332,430	.....154.6
3. 2005.....	.....223,683	.....360,151	.....2,714	.....0.8	.....362,865	.....162.2	.....19	.....2	.....362,886	.....162.2
4. 2006.....	.....221,430	.....376,680	.....2,839	.....0.8	.....379,519	.....171.4	.....629	.....73	.....380,221	.....171.7
5. 2007.....	.....224,714	.....330,193	.....2,488	.....0.8	.....332,681	.....148.0	.....59,036	.....6,836	.....398,553	.....177.4

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - DENTAL ONLY

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	5,667	93	1	1	
2. 2003.....	77,331	4,837	41	2	
3. 2004.....	XXX	66,512	3,636	70	1
4. 2005.....	XXX	XXX	62,409	3,331	45
5. 2006.....	XXX	XXX	XXX	63,714	3,086
6. 2007.....	XXX	XXX	XXX	XXX	59,408

SECTION B - INCURRED HEALTH CLAIMS - DENTAL ONLY

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	5,736	86	2	1	
2. 2003.....	85,098	5,002	42	2	
3. 2004.....	XXX	70,340	3,761	71	1
4. 2005.....	XXX	XXX	61,417	3,432	43
5. 2006.....	XXX	XXX	XXX	63,866	2,952
6. 2007.....	XXX	XXX	XXX	XXX	59,738

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - DENTAL ONLY

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....	100,612	82,211	620	0.8	82,831	82.3			82,831	82.3
2. 2004.....	86,229	70,219	529	0.8	70,748	82.0			70,748	82.0
3. 2005.....	81,150	65,785	496	0.8	66,281	81.7			66,281	81.7
4. 2006.....	78,449	66,800	503	0.8	67,303	85.8	38	4	67,345	85.8
5. 2007.....	73,954	59,408	448	0.8	59,856	80.9	3,532	409	63,797	86.3

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - VISION ONLY

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....1,241	.....14			
2. 2003.....	.....13,044	.....1,177	.....6	.....1	
3. 2004.....	.....XXX	.....11,798	.....834	.....4	.....1
4. 2005.....	.....XXX	.....XXX	.....11,054	.....753	.....3
5. 2006.....	.....XXX	.....XXX	.....XXX	.....11,573	.....698
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....10,194

SECTION B - INCURRED HEALTH CLAIMS - VISION ONLY

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	.....1,247	.....22			
2. 2003.....	.....14,186	.....1,003	.....8		
3. 2004.....	.....XXX	.....12,747	.....684	.....13	
4. 2005.....	.....XXX	.....XXX	.....11,168	.....625	.....8
5. 2006.....	.....XXX	.....XXX	.....XXX	.....11,627	.....515
6. 2007.....	.....XXX	.....XXX	.....XXX	.....XXX	.....10,421

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - VISION ONLY

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....	.....18,701	.....14,228	.....107	.....0.8	.....14,335	.....76.7			.....14,335	.....76.7
2. 2004.....	.....16,403	.....12,637	.....95	.....0.8	.....12,732	.....77.6			.....12,732	.....77.6
3. 2005.....	.....16,032	.....11,810	.....89	.....0.8	.....11,899	.....74.2			.....11,899	.....74.2
4. 2006.....	.....15,403	.....12,271	.....92	.....0.7	.....12,363	.....80.3	.....2		.....12,365	.....80.3
5. 2007.....	.....13,844	.....10,194	.....77	.....0.8	.....10,271	.....74.2	.....728	.....84	.....11,083	.....80.1



UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	28,534	2,393	236	91	
2. 2003.....	135,623	27,982	634	83	(29)
3. 2004.....	XXX	169,482	22,168	573	243
4. 2005.....	XXX	XXX	197,272	24,982	547
5. 2006.....	XXX	XXX	XXX	220,777	25,189
6. 2007.....	XXX	XXX	XXX	XXX	257,922

SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	31,699	4,002	292	100	
2. 2003.....	168,194	30,044	924	105	(32)
3. 2004.....	XXX	202,777	28,174	16,767	291
4. 2005.....	XXX	XXX	182,136	28,629	21,380
5. 2006.....	XXX	XXX	XXX	203,057	28,882
6. 2007.....	XXX	XXX	XXX	XXX	237,466

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....	194,126	164,293	1,238	0.8	165,531	85.3			165,531	85.3
2. 2004.....	220,761	192,466	1,450	0.8	193,916	87.8	34	4	193,954	87.9
3. 2005.....	227,348	222,801	1,679	0.8	224,480	98.7	212	25	224,717	98.8
4. 2006.....	270,742	245,966	1,854	0.8	247,820	91.5	1,641	190	249,651	92.2
5. 2007.....	314,059	257,922	1,944	0.8	259,866	82.7	32,563	3,771	296,200	94.3

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....					
2. 2003.....					
3. 2004.....	.XXX				
4. 2005.....	.XXX	XXX	246		536
5. 2006.....	.XXX	XXX	.XXX	168,721	44,436
6. 2007.....	.XXX	XXX	.XXX	XXX	435,359

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....					
2. 2003.....					
3. 2004.....	.XXX				
4. 2005.....	.XXX	XXX	6,262		491
5. 2006.....	.XXX	XXX	.XXX	220,336	41,128
6. 2007.....	.XXX	XXX	.XXX	XXX	493,845

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....				0.0	0	0.0			0	0.0
2. 2004.....				0.0	0	0.0			0	0.0
3. 2005.....	6,870	782	6	0.8	788	11.5			788	11.5
4. 2006.....	227,684	213,157	1,606	0.8	214,763	94.3	544	63	215,370	94.6
5. 2007.....	532,024	435,359	3,281	0.8	438,640	82.4	112,218	12,994	563,852	106.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	NONE				
2. 2003.....					
3. 2004.....		.XXX.....			
4. 2005.....		.XXX.....	XXX.....		
5. 2006.....		.XXX.....	XXX.....	.XXX.....	
6. 2007.....		.XXX.....	XXX.....	.XXX.....	XXX.....

SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	NONE				
2. 2003.....					
3. 2004.....		.XXX.....			
4. 2005.....		.XXX.....	XXX.....		
5. 2006.....		.XXX.....	XXX.....	.XXX.....	
6. 2007.....		.XXX.....	XXX.....	.XXX.....	XXX.....

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5  Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9  Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....				0.0	0	0.0			0	0.0
2. 2004.....				0.0	0	0.0			0	0.0
3. 2005.....				0.0	0	0.0			0	0.0
4. 2006.....				0.0	0	0.0			0	0.0
5. 2007.....				0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....					
2. 2003.....	50,586				
3. 2004.....	XXX	63,734	533		
4. 2005.....	XXX	XXX	80,718	543	
5. 2006.....	XXX	XXX	XXX	162,307	24,899
6. 2007.....	XXX	XXX	XXX	XXX	177,198

SECTION B - INCURRED HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2003	2 2004	3 2005	4 2006	5 2007
1. Prior.....	3,886				
2. 2003.....	68,379	4,739			
3. 2004.....	XXX	82,242	3,418		
4. 2005.....	XXX	XXX	76,329	5,107	
5. 2006.....	XXX	XXX	XXX	169,520	28,171
6. 2007.....	XXX	XXX	XXX	XXX	184,179

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

Years in Which Premiums were Earned and Claims were Incurred	1  Premiums Earned	2  Claim Payments	3  Claim Adjustment Expense Payments	4  Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6  Percent (Col. 5/1)	7  Claims Unpaid	8  Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10  Percent (Col. 9/1)
1. 2003.....	83,456	50,586	381	0.8	50,967	61.1			50,967	61.1
2. 2004.....	99,760	64,267	484	0.8	64,751	64.9			64,751	64.9
3. 2005.....	122,160	81,261	612	0.8	81,873	67.0			81,873	67.0
4. 2006.....	201,878	187,206	1,411	0.8	188,617	93.4	3,272	379	192,268	95.2
5. 2007.....	219,538	177,198	1,335	0.8	178,533	81.3	40,500	4,690	223,723	101.9

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
POLICY RESERVE									
1. Unearned premium reserves.....	251,962,635	214,562,865	29,973,078	3,292,765	614,767		3,519,160		
2. Additional policy reserves (a).....	356,700,000	146,089,939	209,300,000	1,085,256	224,805				
3. Reserve for future contingent benefits.....	0								
4. Reserve for rate credits or experience rating refunds (including \$.....0) for investment income.....	343,929,747	322,311,418		1,967,398	455,600	4,932,596	11,462,735		2,800,000
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	952,592,382	682,964,222	239,273,078	6,345,419	1,295,172	4,932,596	14,981,895	0	2,800,000
7. Reinsurance ceded.....	0								
8. Totals (net) (Page 3, Line 4).....	952,592,382	682,964,222	239,273,078	6,345,419	1,295,172	4,932,596	14,981,895	0	2,800,000
CLAIM RESERVE									
9. Present value of amounts not yet due on claims.....	0								
10. Reserve for future contingent benefits.....	0								
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0								
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501. ....	0								
0502. ....	0								
0503. ....	0								
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0
1101. ....	0								
1102. ....	0								
1103. ....	0								
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0

(a) Includes \$.....356,700,000 premium deficiency reserve.

BLUE CROSS BLUE SHIELD OF MICHIGAN  
UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$.....43,077,488 for occupancy of own building).....	.....4,598,275	.....10,160,760	.....31,771,321	.....46,996	.....46,577,352
2. Salaries, wages and other benefits.....	.....83,414,509	.....160,164,914	.....363,924,340	.....707,715	.....608,211,478
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			.....203,602,896		.....203,602,896
4. Legal fees and expenses.....	- .....	- .....	.....3,562,034	- .....	.....3,562,034
5. Certifications and accreditation fees.....	- .....	- .....		- .....	.....0
6. Auditing, actuarial and other consulting services.....	.....10,030,146	.....1,057,533	.....72,864,491	.....3,626	.....83,955,796
7. Traveling expenses.....	.....1,495,514	.....955,559	.....11,731,441	.....9,382	.....14,191,896
8. Marketing and advertising.....	.....1,554	- .....	.....16,598,368	- .....	.....16,599,922
9. Postage, express and telephone.....	.....2,294,257	.....9,939,774	.....12,500,466	.....1,365	.....24,735,862
10. Printing and office supplies.....	.....1,213,546	.....1,209,777	.....6,476,988	.....15,198	.....8,915,509
11. Occupancy, depreciation and amortization.....	.....1,171,895	.....1,782,462	.....6,883,649	.....9,847	.....9,847,853
12. Equipment.....					.....0
13. Cost or depreciation of EDP equipment and software.....	.....5,652,751	.....4,325,910	.....62,841,802	.....21,512	.....72,841,975
14. Outsourced services including EDP, claims, and other services.....	.....59,483,558	.....68,141,645	.....92,532,950	.....19,068	.....220,177,221
15. Boards, bureaus and association fees.....	.....363,179	.....25,986	.....6,986,848		.....7,376,013
16. Insurance, except on real estate.....	.....2,570	.....960	.....2,187,297		.....2,190,827
17. Collection and bank service charges.....				.....166,166	.....166,166
18. Group service and administration fees.....			.....88,177,809	- .....	.....88,177,809
19. Reimbursements by uninsured plans.....	.....(89,824,889)	.....(136,624,411)	.....(528,381,700)	- .....	.....(754,831,000)
20. Reimbursements from fiscal intermediaries.....	- .....	- .....			.....0
21. Real estate expenses.....	- .....	- .....		- .....	.....0
22. Real estate taxes.....					.....0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....	- .....	- .....	- .....	- .....	.....0
23.2 State premium taxes.....	- .....	- .....		- .....	.....0
23.3 Regulator authority licenses and fees.....			.....1,178,366		.....1,178,366
23.4 Payroll taxes.....	.....4,525,790	.....8,909,881	.....21,529,244	.....34,245	.....34,999,160
23.5 Other (excluding federal income and real estate taxes).....					.....0
24. Investment expenses not included elsewhere.....					.....0
25. Aggregate write-ins for expenses.....	.....0	.....0	.....0	.....0	.....0
26. Total expenses incurred (Lines 1 to 25).....	.....84,422,655	.....130,050,750	.....476,968,610	.....1,035,120	(a)...692,477,135
27. Less expenses unpaid December 31, current year.....		.....77,503,817	.....156,219,520		.....233,723,337
28. Add expenses unpaid December 31, prior year.....		.....58,886,186	.....150,865,694		.....209,751,880
29. Amounts receivable relating to uninsured plans, prior year.....		.....49,298,722	.....128,739,278		.....178,038,000
30. Amounts receivable relating to uninsured plans, current year.....		.....73,979,100	.....172,617,900		.....246,597,000
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	.....84,422,655	.....136,113,497	.....515,493,406	.....1,035,120	.....737,064,678

DETAILS OF WRITE-INS

2501. ....					.....0
2502. ....					.....0
2503. ....					.....0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	.....0	.....0	.....0	.....0	.....0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	.....0	.....0	.....0	.....0	.....0

(a) Includes management fees of \$.....5,080,876 to affiliates and \$.....129,749,438 to non-affiliates.

BLUE CROSS BLUE SHIELD OF MICHIGAN  
EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....42,783,789	.....40,959,111
1.1 Bonds exempt from U.S. tax.....	(a).....	.....107,952,985
1.2 Other bonds (unaffiliated).....	(a).....110,285,621	.....
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....25,932	.....25,931
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....13,926,775	.....12,815,105
2.21 Common stocks of affiliates.....	.....	.....173,159
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....11,687,159	.....12,093,577
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....1,204,797	.....
9. Aggregate write-ins for investment income.....	.....439,862	.....43,517,350
10. Total gross investment income.....	.....180,353,935	.....217,537,218
11. Investment expenses.....		(g).....1,035,120
12. Investment taxes, licenses and fees, excluding federal income taxes.....		(g).....
13. Interest expense.....		(h).....
14. Depreciation on real estate and other invested assets.....		(i).....12,011,589
15. Aggregate write-ins for deductions from investment income.....		.....0
16. Total deductions (Lines 11 through 15).....		.....13,046,709
17. Net investment income (Line 10 minus Line 16).....		.....204,490,509

DETAILS OF WRITE-INS		
0901. SECURITY LENDING INCOME.....	.....2,631,419	.....2,631,419
0902. MANAGEMENT FEES.....	.....(2,191,557)	.....(2,191,557)
0903. HOME OFFICE RENT.....	.....	.....43,077,488
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....439,862	.....43,517,350
1501. ....		.....
1502. ....		.....
1503. ....		.....
1598. Summary of remaining write-ins for Line 15 from overflow page.....		.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....		.....0
(a) Includes \$.....4,453,984 accrual of discount less \$.....2,026,644 amortization of premium and less \$.....15,018,359 paid for accrued interest on purchases.		
(b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.		
(c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.		
(d) Includes \$.....43,077,488 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.		
(e) Includes \$.....6,424,390 accrual of discount less \$.....0 amortization of premium and less \$.....195,446 paid for accrued interest on purchases.		
(f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.		
(g) Includes \$.....1,035,120 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.		
(h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.		
(i) Includes \$.....12,011,589 depreciation on real estate and \$.....0 depreciation on other invested assets.		

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. government bonds.....	.....2,203,974	.....	.....2,203,974	.....	.....
1.1 Bonds exempt from U.S. tax.....	.....	.....	.....0	.....	.....
1.2 Other bonds (unaffiliated).....	.....(10,041,436)	.....	.....(10,041,436)	.....(38,543,374)	.....
1.3 Bonds of affiliates.....	.....	.....	.....0	.....	.....
2.1 Preferred stocks (unaffiliated).....	.....23,275	.....	.....23,275	.....	.....
2.11 Preferred stocks of affiliates.....	.....	.....	.....0	.....	.....
2.2 Common stocks (unaffiliated).....	.....32,850,080	.....	.....32,850,080	.....39,354,000	.....
2.21 Common stocks of affiliates.....	.....	.....	.....0	.....117,483,253	.....
3. Mortgage loans.....	.....	.....	.....0	.....	.....
4. Real estate.....	.....	.....	.....0	.....	.....
5. Contract loans.....	.....	.....	.....0	.....	.....
6. Cash, cash equivalents and short-term investments.....	.....(539,063)	.....	.....(539,063)	.....	.....
7. Derivative instruments.....	.....	.....	.....0	.....	.....
8. Other invested assets.....	.....	.....	.....0	.....	.....
9. Aggregate write-ins for capital gains (losses).....	.....0	.....0	.....0	.....0	.....0
10. Total capital gains (losses).....	.....24,496,830	.....0	.....24,496,830	.....118,293,879	.....0
DETAILS OF WRITE-INS					
0901. ....	.....	.....	.....0	.....	.....
0902. ....	.....	.....	.....0	.....	.....
0903. ....	.....	.....	.....0	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page....	.....0	.....0	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0	.....0	.....0

BLUE CROSS BLUE SHIELD OF MICHIGAN  
EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			.....0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			.....0
2.2 Common stocks.....	.....313,348,105	.....157,340,448	.....(156,007,657)
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			.....0
3.2 Other than first liens.....			.....0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			.....0
4.2 Properties held for the production of income.....			.....0
4.3 Properties held for sale.....			.....0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....			.....0
6. Contract loans.....			.....0
7. Other invested assets (Schedule BA).....	.....7,309,570	.....6,873,175	.....(436,395)
8. Receivables for securities.....			.....0
9. Aggregate write-ins for invested assets.....	.....0	.....0	.....0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	.....320,657,675	.....164,213,623	.....(156,444,052)
11. Title plants (for Title insurers only).....			.....0
12. Investment income due and accrued.....			.....0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection.....	.....424,556	.....2,118,971	.....1,694,415
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			.....0
13.3 Accrued retrospective premiums.....	.....167,046	.....8,805,263	.....8,638,217
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers.....			.....0
14.2 Funds held by or deposited with reinsured companies.....			.....0
14.3 Other amounts receivable under reinsurance contracts.....			.....0
15. Amounts receivable relating to uninsured plans.....			.....0
16.1 Current federal and foreign income tax recoverable and interest thereon.....			.....0
16.2 Net deferred tax asset.....	.....85,735,541	.....68,394,892	.....(17,340,649)
17. Guaranty funds receivable or on deposit.....			.....0
18. Electronic data processing equipment and software.....	.....142,476,073	.....81,416,959	.....(61,059,114)
19. Furniture and equipment, including health care delivery assets.....	.....17,829,388	.....13,934,235	.....(3,895,153)
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			.....0
21. Receivable from parent, subsidiaries and affiliates.....			.....0
22. Health care and other amounts receivable.....	.....3,617,412	.....2,540,486	.....(1,076,926)
23. Aggregate write-ins for other than invested assets.....	.....156,825,571	.....127,732,447	.....(29,093,124)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	.....727,733,262	.....469,156,876	.....(258,576,386)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.....0
26. TOTALS (Lines 24 and 25).....	.....727,733,262	.....469,156,876	.....(258,576,386)

DETAILS OF WRITE-INS

0901. ....			.....0
0902. ....			.....0
0903. ....			.....0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0
2301. Miscellaneous Accounts Receivable.....	.....5,463,501	.....2,535,548	.....(2,927,953)
2302. Prepaid and Other Assets.....	.....4,651,742	.....5,131,501	.....479,759
2303. Company Owned Automobile.....	.....484,397	.....634,318	.....149,921
2398. Summary of remaining write-ins for Line 23 from overflow page.....	.....146,225,931	.....119,431,080	.....(26,794,851)
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	.....156,825,571	.....127,732,447	.....(29,093,124)



EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....						
2. Provider service organizations.....						
3. Preferred provider organizations.....	1,149,446	1,167,551	1,181,439	1,208,364	1,237,496	14,321,844
4. Point of service.....	56,805	52,147	50,249	48,770	47,354	603,522
5. Indemnity only.....	483,059	480,940	472,650	457,545	442,940	5,628,703
6. Aggregate write-ins for other lines of business.....	880,138	842,839	867,870	880,456	853,429	10,438,485
7. Total.....	2,569,448	2,543,477	2,572,208	2,595,135	2,581,219	30,992,554

DETAILS OF WRITE-INS						
0601. National Stoploss.....	234,319	253,428	265,404	259,845	258,189	3,125,121
0602. Local Stoploss.....	645,819	589,411	602,466	620,611	595,240	7,313,364
0603. ....						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	880,138	842,839	867,870	880,456	853,429	10,438,485

NOTES TO STATUTORY BASIS FINANCIAL STATEMENTS

FOR PERIOD ENDED DECEMBER 31, 2007

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

Blue Cross Blue Shield of Michigan (the “Company”) is incorporated as a nonprofit corporation under the provisions of Public Act 350 (“P.A. 350”) of the State of Michigan. Hospital, medical, and other health benefits are provided under contracts with subscribers. The Company also operates health maintenance organization (“HMO”) subsidiaries that provide health care services to subscribers and contracts with various physician groups, hospitals, and other health care providers to provide such services. In addition, the Company provides workers’ compensation insurance, dental and provider network services, and long-term care insurance.

OFIS recognizes only statutory basis accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company. OFIS adopted the National Association of Insurance Commissioners’ *Accounting Practices and Procedures Manual* (“NAIC SAP”) as the basis for its statutory basis accounting practices without exception. The Commissioner of OFIS has the right to permit other specific practices that may deviate from prescribed practices. Except as noted under “Statutory Transition Plan” below, the accompanying statutory basis financial statements have been prepared, except as to form, in conformity with accounting practices prescribed or permitted by OFIS.

Statutory Transition Plan — Prior to the amendment of P.A. 350 in 2003 by Act 59 (“Act 59”), the Company was required to prepare its Annual Statement in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The final year of reporting statutory basis financial statements in accordance with GAAP was 2003. In accordance with Act 59, the Company, in agreement with OFIS, adopted a three-year plan allowing transition of its reporting from GAAP to NAIC SAP. The final year of the transition plan was 2006. The 2007 financial statements are prepared in conformity with NAIC-SAP as set forth in the National Association of Insurance Commissioners’ *Accounting Practices and Procedures Manual*.

The essential elements of the transition plan, as set forth in State Order No. 06-054-M were as follows:

1. *Bonds* — The Company will report any security purchased on or before December 31, 2003, on a GAAP basis and any new security purchased after December 31, 2003, will be reported in accordance with SAP. Approximately 33% of the Company’s portfolio will be valued on a SAP basis after year 1, 66% after year two and the entire balance after year three.
2. *Investment in Subsidiaries* — The Company will use the current equity method and follow SAP in valuing the subsidiaries. The Company will have three years to record the statutory impact to surplus for investment in subsidiaries based on the following percentages: first year 25%, second year 50%, and third year 75%.
3. *Goodwill* — The Company will apply SAP guidelines; however the percentage of surplus limitation will be as follows: first year 16%, second year 14%, and third year 12%.
4. *Regulatory Asset* — The Company will non-admit the balance based on the following percentages: first year 25%, second year 50%, and third year 75%.
5. *Furniture, Equipment, and Automobiles* — The Company will nonadmit balances in accordance with SSAP No. 19, *Furniture and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements* and SSAP No. 20, *Nonadmitted Assets*.

- 6. *Retiree Health Obligation* — The Company will discontinue reporting an obligation for nonvested employees. The statutory impact will be reported in the first year.
- 7. *Retiree Pension Asset* — The Company will nonadmit the balance based on the following minimum percentages: first year 25%, second year 50%, and third year 75%.
- 8. *Prepaid Expenses and Other Assets* — The Company will nonadmit balances in accordance with SAP.

All other items not specifically addressed in the transition plan follow the accounting practices and procedures as promulgated by the NAIC.

A reconciliation of the Company’s net income and surplus between GAAP, NAIC-SAP and practices prescribed and permitted by the OFIS is shown below for December 31, 2006:

	2006 Michigan OFIS Transition SAP	2006 NAIC Full SAP
GAAP net income — December 31, 2006	\$ 210,191	\$ 210,191
Add (deduct) GAAP to NAIC SAP differences:		
Sale-leaseback adjustments	10,999	10,999
Reduction of nonvested pension expense	2,909	2,909
Deferred implementation premiums expensed	(3,165)	(3,165)
Affiliates’ earnings reclassified to change in unrealized capital gain	(56,332)	(56,332)
Deferred tax expense reclassified to equity section	(5,676)	(5,676)
Statutory net income — December 31, 2006	<u>\$ 158,926</u>	<u>\$ 158,926</u>
GAAP surplus — December 31, 2006	\$ 2,840,230	\$ 2,840,230
Sale-leaseback adjustments — net of tax	53,401	53,401
Goodwill amortization	(20,406)	(20,406)
Preferred stock and bonds market value adjustment	(1,902)	(1,902)
Bond adjustment — net of tax	(7,370)	(7,697)
Accrued retrospective premiums	(10,925)	(10,925)
Investment in subsidiaries	(157,341)	(204,971)
Other invested assets	(6,873)	(6,873)
Furniture, fixtures, and automobiles	(14,569)	(14,569)
Retiree health obligation	139,275	139,275
Retiree pension asset	(78,547)	(104,729)
Implementation premium	(32,622)	(32,622)
Nonadmitted portion of advances to providers	(40,885)	(40,885)
Nonadmitted deferred tax asset	(68,395)	(68,395)
Electronic data processing equipment and software	(81,417)	(81,417)
Health care receivables	(2,541)	(2,541)
Prepaid and other assets	(5,132)	(5,132)
Miscellaneous receivables	(2,537)	(2,537)
Total adjustments	<u>(338,786)</u>	<u>(412,925)</u>
Statutory surplus — December 31, 2006	<u>\$ 2,501,444</u>	<u>\$ 2,427,305</u>

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of statutory-basis financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

C. Accounting Policy

1. Short-Term Investments - Short-term investments and cash equivalents are recorded at amortized cost, which approximates market value, and include commercial paper, certificates of deposits, and other readily marketable investments with initial maturities less than one year for short-term investments and three months or less for cash equivalents.
2. Bonds - Bonds not backed by other loans that have an NAIC designation of one or two are stated at amortized cost using the interest method. Bonds with an NAIC designation of three or higher are carried at the lower of amortized cost or fair market value.
3. Common Stocks - Common stocks are valued as prescribed by the Securities Valuation Office ("SVO") of the NAIC. Changes in unrealized appreciation and depreciation in the value of common stocks are reflected as direct increases or decreases in surplus.
4. Preferred Stocks - Preferred stocks are stated at book value for NAIC classes one and two and lower of book value or market for NAIC classes three through six.
5. Mortgage loans on real estate – The Corporation does not engage in sub-prime residential mortgage lending. In addition, the company does not own any securities within the investment portfolio with sub-prime exposure. The Corporation does not have any underwriting risk on policies issued for Mortgage Guaranty or Financial Guarantee insurance coverage.
6. Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchases assumptions are accounted for using the retrospective method.
7. Investment in Subsidiaries and Goodwill - The Company uses the equity method and follows NAIC SAP in valuing its subsidiaries. In accordance with SSAP No. 68, *Business Combinations and Goodwill*, the Company reports its investments in subsidiaries inclusive of related goodwill balances. Included in the Company's common stock balance are the investments in Blue Care Network of Michigan (BCNM), Accident Fund Insurance Company of America (AFICA), DenteMax, and Michigan Health Insurance Company ("MHIC"). Goodwill is amortized over ten years. Goodwill amortization recognized for the years ended December 31, 2007 and 2006, totaled \$9,128 and \$6,802, respectively. The carrying value of these assets is reviewed for impairment at least annually or more frequently should circumstances indicate. The Company completed its annual impairment tests as of December 31, 2007 and 2006, and no impairment was indicated.

As of December 31, 2007 and 2006 the Company's goodwill balances were fully admissible. The goodwill limitation calculated based on SSAP 68 was \$249,271 and the Company's actual goodwill balance was \$61,745. As of December 31, 2007 and 2006, the breakdown between goodwill and investments in subsidiaries is shown below.

	December 31, 2007 Statement Value
Common Stock Investments in Subsidiaries:	
Investment in BCNM*	\$ 244,115,417
Investment in AFICA	638,345,201
AFICA goodwill	39,983,400
Investment in DenteMax	-
DenteMax goodwill	827,400
Investment in Lifesecure	19,077,915
Investment in MHIC	5,608,199
MHIC goodwill	20,933,526
Amount included in common stock	<u>\$ 968,891,058</u>
Summary:	
Investment in Subsidiaries	\$ 907,146,732
Goodwill	61,744,326
Total	<u>\$ 968,891,058</u>

\* Includes investments in BCNM, Blue Care of Michigan, Blue Care Network Medical Malpractice Self-Insurance Trust, Blue Care Network Stop-Loss, and Casualty Self-Insurance Trust.

As of December 31, 2007 the Company’s goodwill balances were fully admissible. The goodwill limitation calculated based on the SSAP 68 was \$249.3 million and the Company’s actual goodwill balance was \$61.7 million, resulting in a fully admitted asset.

- 8. Investments in Joint Ventures, Partnerships and Limited Liability Companies - The Company has minor ownership interests in partnerships or limited liability companies. The company carries the investment in partnership based on the underlying audited GAAP equity of the partnership.
- 9. Derivatives – NOT APPLICABLE
- 10. Premium Deficiency Reserve - A liability for premium deficiency losses is recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts without consideration of investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company’s method of acquiring, servicing and measuring the profitability of such contracts. Premium deficiency losses are generally released over the period that the contract is in a loss position.
- 11. Liabilities for Unpaid Claim, Claim Adjustment Expenses, and Advances to Providers - Liabilities for unpaid claims and claim adjustment expenses are actuarial estimates of outstanding claims, including claims incurred but not reported (“IBNR”). These estimates are based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled. Interim hospital advances are reported as advances to providers. Processing expense related to claims is accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise.
- 12. Real Estate – Real property occupied by the Company is stated at cost and is depreciated using the straight-line method over estimated useful lives ranging from 30 to 40 years for buildings.
- 13. Long-Lived Assets - Long-lived assets held and used by the Company are reviewed for impairment based on market factors and operational considerations whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

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14. Premiums and Fee Revenues - Premiums, which generally are billed in advance, are recognized as revenue during the respective periods of coverage. Premiums applicable to the unexpired portion of coverage are reflected in the accompanying statements of admitted assets, liabilities and surplus—statutory basis as aggregate health policy reserves.
- Fee revenue primarily consists of administrative fees for services provided under administrative service contracts (“ASC”), including management of medical services, claims processing, and access to provider networks. Under ASC arrangements, self-funded groups retain the full risk of paying claims therefore, claims paid by the Company and the corresponding reimbursement of claims plus administrative fees are netted. Amounts due from ASC groups are equal to the amounts required to pay claims and administrative fees. Administrative fees are earned as services are performed and are calculated based on the number of members in a group or the group's claim experience. Since benefit expenses for ASC arrangements are not the responsibility of the Company, claims paid by the Company and the corresponding reimbursement of claims are not reported in the accompanying statutory basis financial statements. Administrative fee revenues related to ASC arrangements are included as a reduction in operating expenses, cost containment expenses, and other claim adjustment expenses.
2. ACCOUNTING CHANGES AND CORRECTIONS OF ERRORS – NOT APPLICABLE
3. BUSINESS COMBINATIONS – NOT APPLICABLE
4. DISCONTINUED OPERATIONS – NOT APPLICABLE
5. INVESTMENTS
- A. Mortgage Loans – NOT APPLICABLE
- B. Debt Restructuring – NOT APPLICABLE
- C. Reverse Mortgages – NOT APPLICABLE
- D. Loan-Backed Securities - Loan-backed securities are stated at either amortized cost or the lower of amortized cost or fair value. Premiums and discounts on loan-backed bonds and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchases assumptions are accounted for using the retrospective method.
- E. Repurchase Agreements – NOT APPLICABLE
- F. Real Estate – NOT APPLICABLE
6. JOINT VENTURES, PARTNERSHIPS, AND LIMITED LIABILITY COMPANIES
- A. The Company has no investments in partnerships or limited liability companies that exceed 10 percent of its admitted assets.
- B. The Company did not recognize any impairment for its investments in partnerships or limited liability companies during the statement period.
7. INVESTMENT INCOME
- A. Investment income due and accrued with amounts that are over 90 days past due will be nonadmitted.
- B. No investment income due and accrued was nonadmitted at December 31, 2007.
8. DERIVATIVE INSTRUMENTS – NOT APPLICABLE



9. INCOME TAXES

A. The components of the net deferred tax assets at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Total of all gross deferred tax assets (admitted and nonadmitted)	\$ 206,131	\$ 172,383
Total of all gross deferred liabilities	<u>(57,345)</u>	<u>(61,354)</u>
Net deferred tax asset	148,786	111,029
Deferred tax asset nonadmitted in accordance with SSAP No. 10	<u>(85,735)</u>	<u>(68,395)</u>
Net admitted deferred tax asset	<u>\$ 63,051</u>	<u>\$ 42,634</u>
(Increase) in nonadmitted asset	<u><u>\$ (17,340)</u></u>	<u><u>\$ (10,971)</u></u>

B. Unrecognized Deferred Tax Liabilities – Not Applicable

C. Current income taxes incurred at December 31 consist of the following:

	<u>2007</u>	<u>2006</u>
Federal income tax on earnings other than net capital gains	\$ 12,804	\$ 47,406
Amounts incurred relating to prior years	<u>(53,660)</u>	<u>(11,762)</u>
Total federal income taxes incurred	<u>\$ (40,856)</u>	<u>\$ 35,644</u>

The main components of the deferred tax amounts at December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Deferred tax assets:		
Amounts accrued for postretirement benefits	\$ 93,762	\$ 88,434
Amounts accrued for premium deficiency	71,340	49,085
Discount of claim reserves	13,482	7,035
Amounts accrued to groups	400	400
Accrued expenses and bad debts	<u>27,147</u>	<u>27,429</u>
Total deferred tax assets	206,131	172,383
Nonadmitted deferred tax assets	<u>(85,735)</u>	<u>(68,395)</u>
Admitted deferred tax assets	120,396	103,988
Deferred tax liabilities:		
Unrealized capital gains on investments	12,832	11,441
Rate recovery from area rated groups	150	1,630
Amounts prepaid for pension benefits	9,845	15,105
Depreciation, amortization and other	<u>34,518</u>	<u>33,178</u>
Total deferred tax liabilities	<u>57,345</u>	<u>61,354</u>
Net admitted deferred tax assets	<u><u>\$ 63,051</u></u>	<u><u>\$ 42,634</u></u>

D. The actual effective tax rate differs from the expected AMT rate of 20 percent primarily due to the tax impact recognized on the tax adjustments attributable to prior years.

E. At December 31, 2007, the Company does not have any unused operating loss carryforwards available to offset against future taxable income.

F. The Company and three of its taxable subsidiaries, Accident Fund, DenteMax and Michigan Health Insurance Corporation, file a consolidated federal income tax return. Further, the Company has tax sharing agreements with these taxable subsidiaries to provide that each taxable subsidiary is responsible for its own federal tax liability. A fourth subsidiary, LifeSecure, is also taxable, but existing tax legislation does not permit consolidation with non-life entities for the first five years of existence.

G. During 2007 the Company closed out several open tax years that were under various stages of the examination process with the IRS. The field examination for the tax years 2004 and 2005 was completed and closed in 2007 with no material

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tax adjustments required. The 1996 through 1999 audit, which was favorably resolved by the IRS Appeals Division in 2005, but held open for administrative matters, was also closed in 2007. The 2000 through 2003 audit cycle was favorably settled in 2007 by the IRS Appeals Division but remains open due to administrative matters and is expected to close in 2008.

In 2007 the company received tax refunds amounting to \$35.1 million, attributable to tax years 1989 through 1999, for intangible asset deductions that were in existence when the Company first became taxable in 1987.

**10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES**

The Company is incorporated as a nonprofit corporation under the provisions of Public Act 350 ("P.A. 350") of the State of Michigan. Hospital, medical and other health benefits are provided under contracts with subscribers. The Company owns 100% of Blue Care Network of Michigan ("BCNM") and 100% of Michigan Health Insurance Corporation ("MHIC"), two health maintenance organization ("HMO") subsidiaries that provides health care services to subscribers and contracts with various physician groups, hospitals and other health care providers to provide such services. The Company also owns 100% of Accident Fund Insurance Company of America ("AFICA"), a provider of workers' compensation insurance, and DenteMax, providers of network services. The Company also owns 100% of LifeSecure Insurance Company, a long-term care insurance subsidiary.

The Company has agreements with each of its wholly owned subsidiaries under which both or either parties may provide services to each other. The agreements provide for monthly payments and a year-end settlement based on actual cost of services performed. All related-party receivable and payable balances are recorded as either amounts due to or from subsidiaries and affiliates.

At December 31, 2007 and 2006, BCBSM had receivables from subsidiaries amounting to \$23,192,305 and \$33,218,524, respectively, and payable to subsidiaries of \$7,975,085 and \$14,921,497, respectively. BCNM participates in the BCBSM hospital settlement process. As related to that process, BCNM's portion of underpayments due to hospitals or overpayment recoveries from hospitals will be accrued to or paid by the Company as applicable. As of December 31, 2007, settlements due to the Company from BCNM of \$2,855,142 are included in the Company's inter-company receivable. As of December 31, 2006, settlements owed to BCNM of \$5,409,452 are included in the Company's inter-company payable.

Dividends from subsidiaries were \$2,400,000 and \$14,300,000 in 2007 and 2006, respectively. The Company also performs various claims processing and management services. As of December 31, 2007 and 2006, these services totaled \$629,231,613 and \$561,178,911 respectively.

**11. DEBT**

The company, as a member of the Federal Home Loan Bank of Indianapolis (FHLBI) has borrowings outstanding in the amount of \$196.4 million as of December 31, 2007. Loans outstanding were \$196 million and accrued interest due \$.4 million. There was \$46 million in outstanding loans plus \$.1 million in accrued interest at December 31, 2007 borrowed under the Community Investment Program used to finance the Company's Detroit Campus Improvement Project. These loans were acquired in 2006. The terms were for ten years and float quarterly off of three month LIBOR. Interest is paid monthly on the balance outstanding. In 2007, an additional \$150 million was borrowed plus accrued interest of \$.3 million was due on December 31, 2007. The \$150 million in loans were acquired to fund operational liquidity needs and to take advantage of favorable borrowing terms. The terms of the loans were for five years and are putable each quarter back to the FHLBI. Interest is payable monthly on these loans. All loans are collateralized by government securities at 105% of the outstanding loan balance. The weighted average borrowing rate at December 31, 2007 on all 196 million in loans outstanding is 4.26%. Total interest paid and accrued as of December 31, 2007 was \$7.5 million.



12. RETIREMENT PLANS, DEFERRED COMPENSATION, POST EMPLOYMENT BENEFITS AND COMPENSATED ABSCENCES AND OTHER POSTRETIREMENT BENEFIT PLANS

A. Defined Benefit Plan

Substantially all employees who meet certain requirements of age and length of service are covered by the Company’s defined benefit retirement income plans. Benefits paid to retirees are based on age at retirement, years of credited service and highest monthly average earnings over 60 consecutive months.

The Company’s retirement income plan weighted-average target asset allocation and actual asset allocation at December 31, 2007 and 2006, by asset category are as follows:

Asset Category	Target	2007	2006
Equity securities	70.0 %	72.0 %	73.0 %
Debt securities	25.0	26.0	25.0
Other	5.0	2.0	2.0

The Company has developed an asset allocation policy based on its objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. This policy is long-term oriented and consistent with the Company’s risk posture. The Company uses a mix of core and satellite managers to implement its asset allocation policy. The Company reviews on a periodic basis its asset mix and reallocates its portfolio at any time there is a material deviation in the asset class as described in the allocation policy. The policy includes a target allocation as included in the table above and a range of plus or minus 3% of the target established.

Under the Company’s amended retirement account plan for non-represented employees, each participant has an account balance to which interest and earnings credits are added. Interest is credited quarterly based on the prior August one-year Treasury bill rate. For employees hired prior to January 1, 2007, annual earnings credits of 6% to 10% are credited to participants’ account balances on a monthly basis and monthly 2% annual transition credits are made through 2008. For employees hired on or after January 1, 2007, annual earnings credits of 3% to 5% are credited to participants’ account balances on a monthly basis. Employees can elect to receive the lump-sum value of their vested account balance or monthly payments at retirement or termination.

The Company provides certain health care and selected other benefits to all employees and their dependents. Represented and non-represented employees hired before January 1, 2004 who have at least ten years of service after age 45 and retire from active employment or who become disabled and meet certain benefit and service requirements are eligible. Non-represented employees hired on or after January 1, 2004 are required to have 15 years of service after age 45 to be eligible for retiree health care benefits and selected other benefits. Non-represented employees hired on or after January 1, 2007 will be provided access to retiree health care coverage but will be responsible for 100 percent of the cost of such benefit. Certain revisions to the represented employees’ postretirement benefits other than pensions took effect January 1, 2006. Represented employees eligible to retire after December 31, 2016, are required to have 15 years of service after age 45 to be eligible for retiree health care benefits and selected other benefits. Effective January 1, 2008, non-represented retirees that are Medicare eligible will be required to enroll in one of the Corporation’s Medicare Advantage product offerings in order to receive company provided healthcare coverage.

This benefit is subject to revision at the discretion of the Board of Directors for non-represented employees and for represented employees, subject to collective bargaining agreements. These plans are noncontributory plans.

A summary of assets, obligations and assumptions of the pension and other postretirement benefit plans at plan measurement dates of September 30, 2006 and 2005, and as recorded at December 31, 2007 and 2006 are as follows (dollars in thousands):

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1) Change in benefit obligation

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Benefits obligation—beginning of year	\$ 865,497	\$ 837,105	\$ 384,592	\$ 385,634
Service cost	35,053	36,638	29,866	26,297
Interest cost	50,916	47,306	20,278	20,644
Actuarial loss (gain)	(24,344)	(11,593)	(44,554)	(28,867)
Benefits and administrative expenses paid	(56,118)	(51,077)	(18,825)	(16,003)
Amendments	-	7,118	(19,186)	(3,113)
Benefits obligation—end of year	<u>\$ 871,004</u>	<u>\$ 865,497</u>	<u>\$ 352,171</u>	<u>\$ 384,592</u>

2) Change in plan assets

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Fair value of plan assets—beginning of year	\$ 833,408	\$ 795,367	\$ -	\$ -
Actual return on plan assets	122,977	82,636	-	-
Contributions received	-	781	-	-
Inter-plan transfer	(640)	(900)	-	-
Benefits and administrative expenses paid	<u>(54,296)</u>	<u>(44,476)</u>	<u>-</u>	<u>-</u>
Fair value of plan assets—end of year	<u>\$ 901,449</u>	<u>\$ 833,408</u>	<u>\$ -</u>	<u>\$ -</u>

3) Funded Status

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Projected benefit obligation	\$ 871,004	\$ 865,497	\$ 352,171	\$ 384,592
Fair value of plan assets	<u>\$ 901,449</u>	<u>\$ 833,408</u>	<u>\$ -</u>	<u>\$ -</u>
Unfunded (funded) status	\$ (30,445)	\$ 32,089	\$ 352,171	\$ 384,592
Unamortized prior service cost	\$ (7,588)	\$ (8,766)	\$ 25,504	\$ 9,209
Unrecognized net (loss) gain	\$ (16,865)	\$ (101,738)	\$ (50,994)	\$ (98,253)
Remaining net obligation or (net asset) at initial date of application	\$ (91,359)	\$ (104,729)	\$ 326,680	\$ 295,548
(Prepaid non-admitted assets)	\$ (91,359)	\$ (78,547)	\$ -	\$ -
Accrued pension expense included in other liabilities	\$ 38,503	\$ 26,079	\$ -	\$ -
Information for pension plans with a projected benefit obligation in excess of plan assets:				
Projected benefit obligation	\$ 25,233	\$ 23,214	\$ -	\$ -
Accumulated Benefit Obligation	\$ 23,419	\$ 21,449	\$ -	\$ -
Fair value of plan assets	\$ -	\$ -	\$ -	\$ -

4) Projected benefit obligation at December 31, 2007 and 2006, for non-vested employees

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Projected benefit obligation for non-vested employees	\$ 11,182	\$ 11,342	\$ 134,879	\$ 172,495

5) Components of net periodic benefit cost at December 31, 2007 and 2006:

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Service cost	\$ 35,053	\$ 36,638	\$ 29,866	\$ 26,297
Interest cost	50,916	47,306	20,278	20,644
Expected return on plan assets	(68,732)	(66,957)	-	-
Amortization	<u>7,831</u>	<u>10,120</u>	<u>(187)</u>	<u>2,612</u>
Total net periodic benefit cost	<u>\$ 25,068</u>	<u>\$ 27,107</u>	<u>\$ 49,957</u>	<u>\$ 49,553</u>

6) Minimum pension liability adjustment – Not Applicable

7) The assumptions used in determining the actuarial present value of the projected benefit obligation at Decemebr 31, 2007 and 2006, as listed above are as follows:

	Pension Benefits		Postretirement Benefits	
	2007	2006	2007	2006
Discount rate	6.30%	5.90%	6.40%	6.00%
Rate of compensation increase	4.75%	4.75%		
Expected long-term rate of return on plan assets	9.00%	9.00%		

For 2008, the expected long-term rate of return on assets will be 9.00%.

For 2007 measurement purposes, the health care trend rate on covered postretirement benefits is assumed to be 7.75% for 2008, ratably downgrading to 5.00% by 2015 and all years thereafter.

8) Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects (in thousands):

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total of service and interest cost components	\$ 7,567	\$ 6,213
Effect on postretirement benefit obligation	\$ 45,289	\$ 37,964

9) At December 31, 2007, the gross benefit payments expected to be paid and Medicare Part D subsidies anticipated to be received by the Company are as follows:

	Pension Benefits Future Benefit Payments	Postretirement Benefits Future Benefit Payments	Anticipated Future Subsidies
2008	\$ 48,690	\$ 20,820	\$ 1,240
2009	52,770	23,270	1,420
2010	55,790	26,100	1,630
2011	60,330	29,190	1,840
2012	64,680	32,350	2,140
2013 through 2017	<u>377,280</u>	<u>211,280</u>	<u>16,250</u>
Total	<u>\$ 659,540</u>	<u>\$ 343,010</u>	<u>\$ 24,520</u>

10) During 2007, the Company made no contributions to the defined benefit pension plan. As of December 31, 2007, the Company expects to contribute an additional \$20,000 to its defined benefit pension plans in 2008.

B. Defined Contribution Plan

Substantially all employees of the Company who have attained the age of 21 years and have completed three months of continuous service may elect to participate in one of two employee savings plans, which are qualified under Section 401(k) of the Internal Revenue Code. For both non-represented and represented employees, the Company matches 50% of employee contributions up to 10% of bi-weekly adjusted W-2 wages for employees with one year of continuous service. The Company’s contribution was \$16.8 million and \$15.8 million for 2007 and 2006, respectively.

C. Nonqualified Plans

Retirement benefits are provided for a group of key employees under nonqualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitation contained in the Internal Revenue Code. Benefits under the plans are unfunded and paid out of the general assets of the company. The accumulated benefit obligation for these plans was \$23.4 million and \$21.4 million at December 31, 2007 and 2006, respectively.

D. Multi-employer Plans – NOT APPLICABLE

E. Consolidated/Holding Company Plans – NOT APPLICABLE

F. Post employment Benefits and Compensated Absences – NOT APPLICABLE

13. CAPITAL AND SURPLUS, SHAREHOLDERS’ DIVIDEND RESTRICTIONS AND QUASI-REORGANIZATIONS.

A. Under the provisions of Public Act No. 59 of 2003 (“Act 59”) of the State of Michigan, the Company must maintain adequate subscriber reserves to comply with Section 403 of the Michigan Insurance Code, which requires authorized insurers to be safe, reliable and entitled to public confidence. As a result, the Company is required to file with OFIS, on an annual basis, its risk-based capital (“RBC”) calculation based on the National Association of Insurance Commissioners (“NAIC”) model. Act 59 requires the Company to maintain a RBC ratio of at least 200% but not to exceed 1,000% of subscriber reserves. At December 31, 2007 and 2006, the Company was in compliance with the RBC requirement under both OFIS transition SAP practices as well as the full NAIC SAP practices.

B. BCBSM has no preferred stock outstanding.

C. Under the provisions of The Nonprofit Health Care Corporation Act of 1980, the Company is deemed a charitable and benevolent institution whose primary purpose is to promote the distribution of health care services for all residence of the state of Michigan. As such, the Company has no investors or contributed capital.

D. Dividend payment restriction – NOT APPLICABLE

E. Surplus Restriction – NOT APPLICABLE

F. The total amount of advances to surplus not repaid – NOT APPLICABLE

G. The amount of stock held by BCBSM for special purposes – NOT APPLICABLE

H. Special surplus funds changes – NOT APPLICABLE

I. The portion of unassigned funds (surplus) represented or reduced by each item below

a. Unrealized gains and losses	\$	118,294
b. Nonadmitted asset values	\$	(258,576)
c. Provision for reinsurance	\$	-

- J. Surplus debentures of similar obligations – NOT APPLICABLE
- K. Impact of any restatement due to quasi-reorganization – NOT APPLICABLE
- L. Effective dates of all quasi-reorganizations in the prior 10 years – NOT APPLICABLE

**14. CONTINGENCIES**

- A. Contingent Commitments – NOT APPLICABLE
- B. Assessments – NOT APPLICABLE
- C. Gain Contingencies – NOT APPLICABLE
- D. All Other Contingencies

During 2007, the Company along with BCBSA and several Blue Cross Blue Shield Plans (the “Plans”), reached an agreement with a nationwide class of physicians resolving a class action lawsuit with respect to the pricing of medical claim payments. The agreement resolves business disagreements between the Plans and physicians regarding payments, and calls for the Plans to strengthen business practices that promote open communication and cooperation with physicians in the future. The Company’s share of the cash portion of the settlement amounting to \$15,900 is fully accrued on the statement of financial position. Final court approval of the settlement is expected in 2008.

The Company is the defendant in numerous other lawsuits arising in the normal course of business primarily related to subscriber benefits and provider reimbursement issues such as incentive payments and participation arrangements.

While the ultimate outcome and estimate of range of potential loss of the aforementioned lawsuits and others not specifically mentioned cannot be determined at this time, it is the opinion of management and legal counsel that the outcome of such lawsuits will not have a material adverse effect on the Company’s statutory basis financial statements.

Under the terms of self-funded administrative service contracts with its customers, the Company is subject to audits of claims processed by the Company as well as those processed by its related participating plans in other states. Such audits encompass the accuracy of claims payments made on behalf of customers and the administrative expenses charged to the customer. The Company records an estimated amount for the resolution of customer disputes. Settlements of such disputes are not expected to have a material effect on the Company’s statutory basis financial statements.

Management believes any probable contingencies are appropriately recorded in other liabilities.

**15. LEASES**

The Company entered into a sale and leaseback agreement with RBS Lombard (Lombard) on September 25, 2003. Under the transaction, the Company sold Lombard substantially all of its computer hardware and software at a net book value of approximately \$101 million and subsequently leased the assets back. No gain or loss was recorded on this transaction.

A second sale and leaseback transaction was entered into on November 25, 2003 under which the Company sold Lombard \$53.2 million of work-in-process capitalized software. No gain or loss was recorded on this transaction.

The initial lease terms are five years, and monthly lease payments are based on a ten-year amortization period with a balloon payment at the end of five years. In lieu of payment of the balance at the end of year five, the Company will have the option to enter into another lease for an additional five years.

**Statement as of December 31, 2007 of the BLUE CROSS BLUE SHIELD OF MICHIGAN**

As part of the financing agreement, the Company is required to maintain a letter of credit to collateralize the transaction. The current letter of credit is with Comerica Bank. The amount of the letter of credit is equal to 50 percent of the financed amount of the sale-leaseback transaction. The term of the letter of credit is for one year and will renew annually.

The sale-leaseback transaction has been accounted for under SSAP No. 22, *Leases*, which requires a sale of equipment that is accompanied by a leaseback of all or part of the equipment be accounted for as an operating lease. The rent expense incurred for the years ended December 31, 2007 and 2006, related to the sale-leaseback transactions, was \$21.1 million and \$19.7 million, respectively.

Future minimum lease payments as of December 31, 2007, in connection with the sale-leaseback transactions are as follows:

2008	<u>\$ 94,160</u>
Total minimum payments	<u>\$ 94,160</u>

In addition, the Company leases certain computer equipment and office space under various non-cancelable operating leases. Rental expense was \$6,595 and \$6,217 for 2007 and 2006, respectively. At December 31, 2007, future minimum lease payments are as follows:

2008	3,196
2009	3,267
2010	3,331
2011	3,028
2012	
2013 and thereafter	
Total	<u>\$ 12,822</u>

**16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK – NOT APPLICABLE**

**17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES**

The Corporation, in the normal course of business, enters into security lending agreements with various other counterparties. Under these agreements, the Corporation lends U.S. Treasury securities in exchange for collateral consisting primarily of cash. These agreements are primarily overnight in nature and settle the next business day. At December 31, 2007 and 2006, the Corporation had securities loaned of \$893,115,896 and \$1,137,880,643, respectively, and non-cash collateral totaled \$558,895,680 and \$324,364,616, respectively.

**18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED A&H PLANS AND THE UNINSURED PORTION OF PARTIALLY INSURED PLANS**

- A. ASO Plans – NOT APPLICABLE
- B. ASC Plans - The gain from operations of administrative service contracts (ASC) uninsured plans and the uninsured portion of partially insured plans (ASC plans with stop loss coverage) for the period ended December, 31, 2007, are as follows (in thousands):



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	ASC Plans without stoploss	ASC Plans with stoploss	Total
Gross reimbursement for medical cost incurred	\$ 4,942,711	\$ 4,668,345	\$ 9,611,056
Gross administrative fees accrued	307,179	447,652	754,831
Subsidy transfer	(2,567)	(55,295)	(57,862)
Gross expenses incurred (claims and administrative)	5,268,254	5,085,785	10,354,039
Total net gain from operations	\$ (20,931)	\$ (25,083)	\$ (46,014)

	Insured	ASC	Total
Premium fees and reimbursements	\$ 6,169,180	\$ 10,365,887	\$ 16,535,067
Claims Incurred	5,685,387	9,611,056	15,296,443
Premium deficiency charge	111,277	-	111,277
Administrative Expenses	703,290	742,983	1,446,273
Total Operating Expenses	6,499,954	10,354,039	16,853,993
Senior Cost Transfer	57,862	(57,862)	-
Underwriting Gain/(Loss)	\$ (272,913)	\$ (46,014)	\$ (318,927)

- C. Medicare or Similarly Structured Cost Based Reimbursement Contract – NOT APPLICABLE
19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/THIRD PARTY ADMINISTRATORS NOT APPLICABLE
20. OTHER ITEMS
- A. Extraordinary Items – NOT APPLICABLE
- B. Troubled Debt Restructuring – NOT APPLICABLE
- C. Other Disclosures:

Blue Cross Blue Shield Association ("BCBSA") Deposit - As part of its Blue Cross Blue Shield Association ("BCBSA") license requirements, the Company is required to maintain a custodial bank account to assure the payment of claims in the event of the Company's insolvency. The account balance is calculated as a percentage of the Company's unpaid claim liability and consists primarily of marketable securities. The funds in the account are included in the Company's investment portfolio. The Company has the ability to trade and transfer securities within the account as long as the balance in the account is at or above the required minimum. The required balance for the period April 1, 2007 through March 31, 2008, is \$125.2 million. At December 31, 2007, the balance in this custodial account was \$162.9 million.

*Industry Concentration*— The Company primarily conducts business within the State of Michigan. A significant portion of the Company's customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from our significant customers in this industry are \$130.4 million and \$118.1 million at December 31, 2007 and 2006, respectively. These receivables primarily represent reimbursable claims and administrative fees for services provided to them as part of their ASC arrangements with the Company. The Company held cash advances from these customers of \$21.5 million and \$20.8 million at December 31, 2007 and 2006, respectively, to partially offset these receivables. In addition, the Corporation holds investments in these customers' equity securities, corporate bonds, commercial paper, and medium-term notes with a total fair value of \$11.7 million and \$12.5 million at December 31, 2007 and 2006, respectively.

- D.   Uncollectible Assets on Uninsured plans – NOT APPLICABLE
- E.   Noncash Transactions – NOT APPLICABLE
- F.   Business Interruption Insurance Recoveries – NOT APPLICABLE
21. EVENTS SUBSEQUENT – NONE
22. REINSURANCE – NOT APPLICABLE
23. RETROSPECTIVELY RATED CONTRACTS AND CONTRACTS SUBJECT TO REDETERMINATION
- A.   The company establishes a liability for experience rated group contracts and portions of Medicare Part D prescription drug contracts as a result of favorable experience based on an actuarial estimate of underwriting gains which will be returned to customers, either as cash refunds or future rate reductions. Liabilities for experience contracts were \$343,929,747 and \$339,062,780 at December 31, 2007 and 2006, respectively. Under terms of most of the experience-rated contracts, recovery, if any, of underwriting losses through future rate increases is not recognized until received.
- B.   During 2007 and 2006, net premiums written that are subject to retrospective rating features were \$2,012,079,308 and \$2,073,981,182, respectively, which represents 33% and 36%, respectively, of total net premiums written. As of December 31, 2007, receivables for accrued retrospective premiums totaled \$1,242,718 and \$10,060,677 at December 31, 2007 and 2006 respectively, of these amounts \$167,046 and \$8,805,263, respectively, were non-admitted assets.

24. CHANGE IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES -

This estimate is based upon historical claims experience modified for current trends and changes in benefit coverage, which could vary as the claims are ultimately settled. Processing expense related to claims is accrued based on an estimate of expenses to process such claims. Revisions in actuarial estimates are reported in the period in which they arise.

26. INTER-COMPANY POOLING ARRANGEMENTS – NOT APPLICABLE

27. STRUCTURED SETTLEMENTS – NOT APPLICABLE

28. HEALTH CARE RECEIVABLES

The Company receives pharmaceutical rebates from third-party pharmacy benefit managers. These rebates are calculated using estimates based on guaranteed rebate rates, drug benefit trends and membership. Activity for 2007 and 2006 is summarized as follows (in thousands):

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 Days of Billing	Actual Rebates Received Within 91 to 180 Days of Billing	Actual Rebates Received More Than 180 Days After Billing
12/31/2007	\$ 25,160	\$ 11,491	\$ 11,491	\$ -	\$ -
9/30/2007	\$ 34,135	\$ 36,419	\$ 36,419	\$ -	\$ -
6/30/2007	\$ 21,429	\$ 33,565	\$ 33,565	\$ -	\$ -
3/31/2007	\$ 32,987	\$ 28,227	\$ 28,227	\$ -	\$ -
12/31/2006	\$ 25,840	\$ 35,230	\$ 35,230	\$ -	\$ 2,699
9/30/2006	\$ 32,946	\$ 28,552	\$ 28,552	\$ -	\$ 2,699
6/30/2006	\$ 30,948	\$ 37,904	\$ 37,904	\$ -	\$ 2,699
3/31/2006	\$ 37,539	\$ 33,767	\$ 33,767	\$ -	\$ 2,699

29. PARTICIPATING POLICIES – NOT APPLICABLE

30. PREMIUM DEFICIENCY RESERVES

A liability for premium deficiency losses is recognized when it is probable that expected claim losses and allocable administrative expenses will exceed future premiums on existing health and other contracts without consideration of



Statement as of December 31, 2007 of the BLUE CROSS BLUE SHIELD OF MICHIGAN

investment income. For purposes of premium deficiency losses, contracts are grouped in a manner consistent with the Company's method of acquiring, servicing and measuring the profitability of such contracts. The anticipated losses are reported as an increase in reserves for life and accident and health contracts. Once established, premium deficiency losses are released over the period that the contract is in a loss position. Premium deficiency reserves consist of the following:

	Balance 12/31/2006	Additional Provision	Amortization	Balance 12/31/2007
MIChild	\$ 10,623	\$ 14,177	\$ 14,000	\$ 10,800
Individual	36,600	125,000	25,000	136,600
Medicare Complementary	<u>198,200</u>	<u>99,200</u>	<u>88,100</u>	<u>209,300</u>
Total	<u>\$ 245,423</u>	<u>\$ 238,377</u>	<u>\$ 127,100</u>	<u>\$ 356,700</u>

Projected Loss by Year	MIChild	Individual	Medicare Comp	Total
2008 year	\$ 10,800	\$ 46,200	\$ 73,100	\$ 130,100
2009 year		39,500	63,100	102,600
2010 year		35,600	50,500	86,100
2011 year	<u>                    </u>	<u>15,300</u>	<u>22,600</u>	<u>37,900</u>
	<u>\$ 10,800</u>	<u>\$ 136,600</u>	<u>\$ 209,300</u>	<u>\$ 356,700</u>

The MIChild premium deficiency reserve ("PDR") was established for the anticipated losses on the state sponsored insurance program, which provides health and dental benefits for uninsured children of Michigan's working families. The \$10,623,000 balance at December 31, 2006, was the estimated loss for the contract period in effect ending September 30, 2007. At October 1, 2007, the Company established a new premium deficiency reserve of \$14,177,000 based on a current valuation of anticipated losses for the new contract period ending September 30, 2008. At December 31, 2007 the outstanding balance of \$10,800,000 represents anticipated losses for the current contract period. For the 2006-2008 contract years, an agreement with the State of Michigan limits the Company's annual underwriting loss from the MIChild program to \$15,500,000 per year, as such a receivable for excess losses of \$7,502,000 and \$3,871,000 were established at December 31, 2007 and 2006 respectively.

The premium deficiency reserve for the Company's Individual business line was established for anticipated losses for the contract years 2008 through 2011 primarily due to the likelihood of lower than expected future premium rate increases and higher than anticipated benefit trends.

The premium deficiency reserve established at December 31, 2006 for the Medicare complimentary line of business was for anticipated losses for the contract years 2006 through 2008. The additional provision for losses through 2011 in the amount of \$99,200,000 was based on revised premium rate increase assumptions.

31. ANTICIPATED SALVAGE AND SUBROGATION

Anticipated salvage and subrogation is included as a reduction to claims unpaid as reported on line 1, page 3 as follows:

2002 Accident Year	-	-
2003 Accident Year	-	3,016
2004 Accident Year	2,938	9,466
2005 Accident Year	6,527	1,364,548
2006 Accident Year	1,728,285	10,820,156
2007 Accident Year	13,736,694	



BLUE CROSS BLUE SHIELD OF MICHIGAN  
SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....	635,317,581	12.6	635,317,581	13.4
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....	176,272,906	3.5	176,272,906	3.7
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....	100,000	0.0	100,000	0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA.....		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....		0.0		0.0
1.513 All other.....	200,917,983	4.0	200,917,983	4.2
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....	933,505,412	18.4	933,505,412	19.7
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521.....		0.0		0.0
1.523 All other.....		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO).....	783,058,215	15.5	783,058,215	16.5
2.2 Unaffiliated foreign securities.....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....	316,030,858	6.2	316,030,858	6.7
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....	4,813,615	0.1	4,813,615	0.1
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....	341,428,486	6.7	341,428,486	7.2
3.4 Other equity securities:				
3.41 Affiliated.....	1,282,239,162	25.3	968,891,057	20.4
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....	193,473,210	3.8	193,473,210	4.1
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0		0.0
6. Contract loans.....		0.0		0.0
7. Receivables for securities.....	55,257,611	1.1	55,257,611	1.2
8. Cash, cash equivalents and short-term investments.....	73,908,463	1.5	73,908,463	1.6
9. Other invested assets.....	64,840,064	1.3	57,530,494	1.2
10. Total invested assets.....	5,061,163,566	100.0	4,740,505,891	100.0

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes [ X ]      No [   ]

1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [ X ]      No [   ]      N/A [   ]

1.3

State regulating?

Michigan

2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [   ]      No [ X ]

2.2

If yes, date of change:

3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2003

3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2003

3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

06/16/2005

3.4

By what department or departments?

Office of Financial and Insurances Services

4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under a common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11

sales of new business?

Yes [   ]      No [ X ]

4.12

renewals?

Yes [   ]      No [ X ]

4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21

sales of new business?

Yes [   ]      No [ X ]

4.22

renewals?

Yes [   ]      No [ X ]

5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [   ]      No [ X ]

5.2

If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1	2	3
Name of Entity	NAIC Co. Code	State of Domicile

6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes [   ]      No [ X ]

6.2

If yes, give full information:

7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [   ]      No [ X ]

7.2

If yes,

7.21

State the percentage of foreign control.

.....%

7.22

State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1	2
Nationality	Type of Entity

8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [   ]      No [ X ]

8.2

If response to 8.1 is yes, please identify the name of the bank holding company.

8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [   ]      No [ X ]

8.4

If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

Deloitte & Touche, Suite 900, 600 Renaissance Center, Detroit, Michigan 48243-1704

10.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

John Dunn FSA MAAA Vice President and Coroporate Actuary

11.1

Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes [   ]      No [ X ]

11.11

Name of real estate holding company

11.12

Number of parcels involved

.....

11.13

Total book/adjusted carrying value

.....

11.2

If yes, provide explanation.

12.

FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

12.1

What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

12.2

Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes [   ]      No [   ]

12.3

Have there been any changes made to any of the trust indentures during the year?

Yes [   ]      No [   ]

12.4

If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?

Yes [   ]      No [   ]      N/A [   ]

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

13.1

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?  
a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;  
b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;  
c. Compliance with applicable governmental laws, rules and regulations;  
d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and  
e. Accountability for adherence to the code.

Yes [ X ]      No [   ]

13.11

If the response to 13.1 is No, please explain:

13.2

Has the code of ethics for senior managers been amended?

Yes [   ]      No [ X ]

13.21

If the response to 13.2 is Yes, provide information related to amendment(s).

13.3

Have any provisions of the code of ethics been waived for any of the specified officers?

Yes [   ]      No [ X ]

13.31

If the response to 13.3 is yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

14.

Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes [ X ]      No [   ]

15.

Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes [ X ]      No [   ]

16.

Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes [ X ]      No [   ]

FINANCIAL

17.

Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes [   ]      No [ X ]

18.1

Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

18.11

To directors or other officers

\$.....0

18.12

To stockholders not officers

\$.....0

18.13

Trustees, supreme or grand (Fraternal only)

\$.....0

18.2

Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

18.21

To directors or other officers

\$.....0

18.22

To stockholders not officers

\$.....0

18.23

Trustees, supreme or grand (Fraternal only)

\$.....0

19.1

Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes [   ]      No [ X ]

19.2

If yes, state the amount thereof at December 31 of the current year:

19.21

Rented from others

.....

19.22

Borrowed from others

.....

19.23

Leased from others

.....

19.24

Other

.....

20.1

Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes [   ]      No [ X ]

20.2

If answer is yes:

20.21

Amount paid as losses or risk adjustment

.....

20.22

Amount paid as expenses

.....

20.23

Other amounts paid

.....

21.1

Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [ X ]      No [   ]

21.2

If yes, indicate any amounts receivable from parent included in the Page 2 amount.

\$.....0

INVESTMENT

22.1

Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date?

Yes [   ]      No [ X ]

22.2

If no, give full and complete information relating thereto.  
Certain securities are subject to a security lending agreement with State Street Bank.

23.1

Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contact that is currently in force? (Exclude securities subject to Interrogatory 19.1)

Yes [ X ]      No [   ]

23.2

If yes, state the amount thereof at December 31 of the current year:

23.21

Loaned to others

\$.....1,420,770,010

23.22

Subject to repurchase agreements

\$.....0

23.23

Subject to reverse repurchase agreements

\$.....0

23.24

Subject to dollar repurchase agreements

\$.....0

23.25

Subject to reverse dollar repurchase agreements

\$.....0

23.26

Pledged as collateral

\$.....457,158,963

23.27

Placed under option agreements

\$.....0

23.28

Letter stock or securities restricted as to sale

\$.....0

23.29

On deposit with state or other regulatory body

\$.....0

23.291

Other

\$.....0

23.3

For category (23.28) provide the following:

1	2	3
Nature of Restriction	Description	Amount

24.1

Does the reporting entity have any hedging transactions reported on Schedule DB?

Yes [   ]      No [ X ]

24.2

If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?  
If no, attach a description with this statement.

Yes [   ]      No [   ]      N/A [ X ]

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

- 25.1

Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?

Yes [ ☐ ]    No [ ☒ ]
- 25.2

If yes, state the amount thereof at December 31 of the current year:

.....

26.

Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, G - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?

Yes [ ☒ ]    No [ ☐ ]

- 26.01

For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
State Street Insurance Services	801 Pennsylvania Kansas City MI 64105
Federal Home Loan Bank of Indianapolis	8250 Woodfield Crossing, Indianapolis IN 46240
Comerica Bank	Institutional Trust, P.O Box 75000, Detroit, MI 48275
Fidelity Investments	100 Magellan Way, Covington, KY 41015

- 26.02

For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

- 26.03

Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year?

Yes [ ☐ ]    No [ ☒ ]

- 26.04

If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

- 26.05

Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address

- 27.1

Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])?

Yes [ ☒ ]    No [ ☐ ]

- 27.2

If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj.Carrying Value
78462F 10 3	Spy Exchange Traded Funds	175,529,930
921913 30 7	Vanguard Structured L/C	114,019,449
722005 62 6	PIMCO All Assets	14,553,614
464287 48 1	IShares Russel Midcap	484,245
27.2999. TOTAL		304,587,238

- 27.3

For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from the above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	4 Date of Valuation
Spy Exchange Traded Funds	Exxon Mobil	6,690,499	12/31/2007
Vanguard Structured L/C	Exxon Mobil	4,341,861	12/31/2007
PIMCO All Assets	PIMCO All Assets		12/31/2007
IShares Russel Midcap	National Oilwell	5,375	12/31/2007

28.

Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds.....	.....2,851,672,385	.....2,907,740,070	.....56,067,685
28.2 Preferred stocks.....	.....4,813,615	.....5,379,546	.....565,931
28.3 Totals.....	.....2,856,486,000	.....2,913,119,616	.....56,633,616

- 28.4

Describe the sources or methods utilized in determining the fair values:

State Street Bank

- 29.1

Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?

Yes [ ☒ ]    No [ ☐ ]
- 29.2

If no, list exceptions:

OTHER

- 30.1

Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?

\$.....5,622,048
- 30.2

List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Blue Cross Blue Shield Association	5,521,125

- 31.1

Amount of payments for legal expenses, if any?

\$.....3,135,000

- 31.2

List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Dickinson Wright	1,461,000

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

- 32.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$.....382,768
- 32.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid

BLUE CROSS BLUE SHIELD OF MICHIGAN  
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [ X ]      No [   ]

1.2

If yes, indicate premium earned on U.S. business only

\$.....224,713,686

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

\$.....0

1.31

Reason for excluding

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

\$.....0

1.5

Indicate total incurred claims on all Medicare Supplement insurance.

\$.....381,255,641

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

\$.....224,713,686

1.62

Total incurred claims

\$.....381,255,641

1.63

Number of covered lives

.....209,395

All years prior to most current three years:

1.64

Total premium earned

\$.....0

1.65

Total incurred claims

\$.....0

1.66

Number of covered lives

.....0

1.7

Group policies:

Most current three years:

1.71

Total premium earned

\$.....0

1.72

Total incurred claims

\$.....0

1.73

Number of covered lives

.....0

All years prior to most current three years:

1.74

Total premium earned

\$.....0

1.75

Total incurred claims

\$.....0

1.76

Number of covered lives

.....0

2.

Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator.....	.....6,184,769,645	.....5,797,965,357
2.2 Premium Denominator.....	.....6,184,769,645	.....5,865,134,213
2.3 Premium Ratio (2.1/2.2).....	.....100.0	.....98.9
2.4 Reserve Numerator.....	.....1,621,922,660	.....1,437,636,397
2.5 Reserve Denominator.....	.....1,621,922,660	.....1,438,797,979
2.6 Reserve Ratio (2.4/2.5).....	.....100.0	.....99.9

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?

Yes [   ]      No [ X ]

3.2

If yes, give particulars:

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes [ X ]      No [   ]

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [ X ]      No [   ]

5.1

Does the reporting entity have stop-loss reinsurance?

Yes [   ]      No [ X ]

5.2

If no, explain:

Blue Cross Blue Shield of Michigan does not utilize stop-loss reinsurance due to the size and stability of the business and sufficient levels of capitalization

5.3

Maximum retained risk (see instructions):

5.31

Comprehensive medical

\$.....0

5.32

Medical only

\$.....0

5.33

Medicare supplement

\$.....0

5.34

Dental

\$.....0

5.35

Other limited benefit plan

\$.....0

5.36

Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Maintain a restricted custodial bank account determined on the basis of a formula set by BCBSA and continuation insurance coverage with Collins and Associates.

7.1

Does the reporting entity set up its claim liability for provider services on a service date base?

Yes [   ]      No [ X ]

7.2

If no, give details:

Claims liabilities are based on paid/incurred claims triangulation

8.

Provide the following information regarding participating providers:

8.1

Number of providers at start of reporting year

.....38,751

8.2

Number of providers at end of reporting year

.....40,029

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [ X ]      No [   ]

9.2

If yes, direct premium earned:

9.21

Business with the rate guarantees between 15-36 months

\$.....0

9.22

Business with rate guarantees over 36 months

\$.....0

10.1

Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts?

Yes [ X ]      No [   ]

10.2

If yes:

10.21

Maximum amount payable bonuses

\$.....20,751,531

10.22

Amount actually paid for year bonuses

\$.....20,751,531

10.23

Maximum amount payable withholds

\$.....0

10.24

Amount actually paid for year withholds

\$.....0



BLUE CROSS BLUE SHIELD OF MICHIGAN  
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,

11.13 An Individual Practice Association (IPA), or

11.14 A Mixed Model (combination of above)?

Yes [ ]

No [X]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes [ ]

No [X]

11.3 If yes, show the name of the state requiring such net worth.

11.4 If yes, show the amount required.

11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes [ ]

No [X]

11.6 If the amount is calculated, show the calculation:

12. List service areas in which reporting entity is licensed to operate:

1
Name of Service Area
Michigan

BLUE CROSS BLUE SHIELD OF MICHIGAN  
FIVE-YEAR HISTORICAL DATA

	1 2007	2 2006	3 2005	4 2004	5 2003
<b>Balance Sheet Items (Pages 2 and 3)</b>					
1. Total admitted assets (Page 2, Line 26).....	5,418,152,286	5,237,887,264	4,846,088,978	4,323,733,105	4,256,344,275
2. Total liabilities (Page 3, Line 22).....	3,012,063,208	2,736,443,080	2,385,068,109	2,080,025,393	2,358,220,996
3. Statutory surplus.....	2,406,089,078	2,501,444,184	2,461,020,869	2,243,707,712	1,898,123,279
4. Total capital and surplus (Page 3, Line 31).....	2,406,089,078	2,501,444,184	2,461,020,869	2,243,707,712	1,898,123,279
<b>Income Statement Items (Page 4)</b>					
5. Total revenues (Line 8).....	6,169,179,593	5,805,419,538	5,523,155,022	5,518,400,812	5,554,674,204
6. Total medical and hospital expenses (Line 18).....	5,685,387,252	5,205,222,315	4,764,024,261	4,741,767,141	4,784,056,750
7. Claims adjustment expenses (Line 20).....	214,473,405	179,680,979	162,363,543	146,094,381	140,978,497
8. Total administrative expenses (Line 21).....	476,968,610	446,184,971	382,867,090	334,178,455	362,475,685
9. Net underwriting gain (loss) (Line 24).....	(318,926,674)	808,273	104,500,128	168,860,835	232,163,272
10. Net investment gain (loss) (Line 27).....	224,087,974	181,831,855	145,840,683	169,584,382	91,865,207
11. Total other income (Lines 28 plus 29).....	70,167,452	11,930,239	12,790,186	37,392,858	118,792,295
12. Net income or (loss) (Line 32).....	16,184,425	158,926,121	193,004,312	238,811,712	374,497,394
<b>Cash Flow (Page 6)</b>					
13. Net cash from operations (Line 11).....	244,386,022	257,818,197	299,679,672	271,973,514	507,217,102
<b>Risk-Based Capital Analysis</b>					
14. Total adjusted capital.....	2,406,089,078	2,501,444,184	2,461,020,869	2,243,707,712	1,898,123,279
15. Authorized control level risk-based capital.....	349,730,807	317,971,740	276,012,909	282,994,740	299,806,439
<b>Enrollment (Exhibit 1)</b>					
16. Total members at end of period (Column 5, Line 7).....	2,581,219	2,569,448	2,540,301	2,621,892	2,698,830
17. Total member months (Column 6, Line 7).....	30,992,554	30,854,629	30,862,149	31,590,818	35,468,309
<b>Operating Percentage (Page 4)</b> <b>(Item divided by Page 4, sum of Lines 2, 3, and 5) x 100</b>					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5).....	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Line 18 plus Line 19)....	92.2	89.7	86.3	85.9	86.1
20. Cost containment expenses.....	1.4	1.1	0.8	0.9	XXX
21. Other claims adjustment expenses.....	2.1	2.0	2.1	2.6	
22. Total underwriting deductions (Line 23).....	105.2	100.0	98.1	96.9	95.8
23. Total underwriting gain (loss) (Line 24).....	(5.2)	0.0	1.9	3.1	4.2
<b>Unpaid Claims Analysis (U&amp;I Exhibit, Part 2B)</b>					
24. Total claims incurred for prior years (Line 13 Col. 5).....	551,239,223	450,712,757	458,613,882	482,601,216	518,953,914
25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	613,072,649	469,080,844	481,433,976	576,481,245	567,360,979
<b>Investments in Parent, Subsidiaries and Affiliates</b>					
26. Affiliated bonds (Sch. D Summary, Line 25, Col. 1).....					
27. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1).....					
28. Affiliated common stocks (Sch D. Summary, Line 53, Col. 1).....	1,282,239,163	1,024,332,105	920,545,469	839,255,522	695,666,322
29. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 7).....					
30. Affiliated mortgage loans on real estate.....					
31. All other affiliated.....					
32. Total of above Lines 26 to 31.....	1,282,239,163	1,024,332,105	920,545,469	839,255,522	695,666,322

BLUE CROSS BLUE SHIELD OF MICHIGAN

SCHEDULE D - SUMMARY BY COUNTRY

Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
<b>BONDS</b>  Governments  (Including all obligations guaranteed by governments)	1. United States.....	813,308,632	848,654,706	812,241,766	808,500,000
	2. Canada.....				
	3. Other Countries.....	100,000	100,000	100,000	100,000
	4. Totals.....	813,408,632	848,754,706	812,341,766	808,600,000
States, Territories and Possessions  (Direct and guaranteed)	5. United States.....				
	6. Canada.....				
	7. Other Countries.....				
	8. Totals.....	0	0	0	0
Political Subdivisions of States, Territories and Possessions  (Direct and guaranteed)	9. United States.....				
	10. Canada.....				
	11. Other Countries.....				
	12. Totals.....	0	0	0	0
Special Revenue and Special Assessment Obligations and all Non-guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	13. United States.....	933,505,413	946,760,133	932,737,280	942,971,042
	14. Canada.....				
	15. Other Countries.....				
	16. Totals.....	933,505,413	946,760,133	932,737,280	942,971,042
Public Utilities  (Unaffiliated)	17. United States.....				
	18. Canada.....				
	19. Other Countries.....				
	20. Totals.....	0	0	0	0
Industrial and Miscellaneous and Credit Tenant Loans  (Unaffiliated)	21. United States.....	981,086,885	988,141,442	991,099,028	1,005,422,160
	22. Canada.....				
	23. Other Countries.....	1,171,167	1,562,275	1,169,740	1,235,000
	24. Totals.....	982,258,052	989,703,717	992,268,768	1,006,657,160
Parent, Subsidiaries and Affiliates	25. Totals.....				
	26. <b>Total Bonds.....</b>	2,729,172,097	2,785,218,556	2,737,347,814	2,758,228,202
<b>PREFERRED STOCKS</b>  Public Utilities  (Unaffiliated)	27. United States.....				
	28. Canada.....				
	29. Other Countries.....				
	30. Totals.....	0	0	0	
Banks, Trust and Insurance Companies  (Unaffiliated)	31. United States.....	4,238,784	4,238,784	4,752,000	
	32. Canada.....				
	33. Other Countries.....				
	34. Totals.....	4,238,784	4,238,784	4,752,000	
Industrial and Miscellaneous  (Unaffiliated)	35. United States.....	574,831	580,026	581,208	
	36. Canada.....				
	37. Other Countries.....				
	38. Totals.....	574,831	580,026	581,208	
Parent, Subsidiaries and Affiliates	39. Totals.....				
	40. <b>Total Preferred Stocks.....</b>	4,813,615	4,818,810	5,333,208	
<b>COMMON STOCKS</b>  Public Utilities  (Unaffiliated)	41. United States.....				
	42. Canada.....				
	43. Other Countries.....				
	44. Totals.....	0	0	0	
Banks, Trust and Insurance Companies  (Unaffiliated)	45. United States.....				
	46. Canada.....				
	47. Other Countries.....				
	48. Totals.....	0	0	0	
Industrial and Miscellaneous  (Unaffiliated)	49. United States.....	657,459,343	657,459,343	592,816,698	
	50. Canada.....				
	51. Other Countries.....				
	52. Totals.....	657,459,343	657,459,343	592,816,698	
Parent, Subsidiaries and Affiliates	53. Totals.....	1,282,239,163	1,282,238,362	367,983,643	
	54. <b>Total Common Stocks.....</b>	1,939,698,506	1,939,697,705	960,800,341	
	55. <b>Total Stocks.....</b>	1,944,512,121	1,944,516,515	966,133,549	
	56. <b>Total Bonds and Stocks....</b>	4,673,684,218	4,729,735,071	3,703,481,363	

SCHEDULE D - VERIFICATION BETWEEN YEARS

Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year.....	4,387,832,360	7. Amortization of premium.....	2,026,644
2. Cost of bonds and stocks acquired, Column 7, Part 3.....	4,805,737,872	8. Foreign exchange adjustment:	
3. Accrual of discount.....	4,453,984	8.1 Column 15, Part 1.....	
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2, Section 1.....	
4.1 Columns 12 - 14, Part 1.....	(10,323,170)	8.3 Column 16, Part 2, Section 2.....	
4.2 Columns 15 - 17, Part 2, Section 1.....	(5,195)	8.4 Column 15, Part 4.....	0
4.3 Column 15, Part 2, Section 2.....	286,488,228	9. Book/adjusted carrying value at end of current period.....	4,673,684,218
4.4 Columns 11 - 13, Part 4.....	(15,610,300)	10. Total valuation allowance.....	
5. Total gain (loss), Column 19, Part 4.....	25,035,907	11. Subtotal (Lines 9 plus 10).....	4,673,684,218
6. Deduct consideration for bonds and stocks disposed of, Column 7, Part 4....	4,807,898,824	12. Total nonadmitted amounts.....	313,348,105
		13. Statement value of bonds and stocks, current year.....	4,360,336,113

BLUE CROSS BLUE SHIELD OF MICHIGAN  
SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

		1	Direct Business Only							
			2	3	4	5	6	7	8	9
State, Etc.		Is Insurer Licensed? (YES or NO)	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employee Health Benefits Program Premiums	Life & Annuity Premiums and Other Considerations	Property/ Casualty Premiums	Total Columns 2 Through 7	Deposit- Type Contracts
1.	Alabama.....	AL...NO							.....0	.....
2.	Alaska.....	AK...NO							.....0	.....
3.	Arizona.....	AZ...NO							.....0	.....
4.	Arkansas.....	AR...NO							.....0	.....
5.	California.....	CA...NO							.....0	.....
6.	Colorado.....	CO...NO							.....0	.....
7.	Connecticut.....	CT...NO							.....0	.....
8.	Delaware.....	DE...NO							.....0	.....
9.	District of Columbia.....	DC...NO							.....0	.....
10.	Florida.....	FL...NO							.....0	.....
11.	Georgia.....	GA...NO							.....0	.....
12.	Hawaii.....	HI...NO							.....0	.....
13.	Idaho.....	ID...NO							.....0	.....
14.	Illinois.....	IL...NO							.....0	.....
15.	Indiana.....	IN...NO							.....0	.....
16.	Iowa.....	IA...NO							.....0	.....
17.	Kansas.....	KS...NO							.....0	.....
18.	Kentucky.....	KY...NO							.....0	.....
19.	Louisiana.....	LA...NO							.....0	.....
20.	Maine.....	ME...NO							.....0	.....
21.	Maryland.....	MD...NO							.....0	.....
22.	Massachusetts.....	MA...NO							.....0	.....
23.	Michigan.....	MI...YES	.5,320,047,149	.545,730,597		...318,991,899			..6,184,769,645	.....
24.	Minnesota.....	MN...NO							.....0	.....
25.	Mississippi.....	MS...NO							.....0	.....
26.	Missouri.....	MO...NO							.....0	.....
27.	Montana.....	MT...NO							.....0	.....
28.	Nebraska.....	NE...NO							.....0	.....
29.	Nevada.....	NV...NO							.....0	.....
30.	New Hampshire.....	NH...NO							.....0	.....
31.	New Jersey.....	NJ...NO							.....0	.....
32.	New Mexico.....	NM...NO							.....0	.....
33.	New York.....	NY...NO							.....0	.....
34.	North Carolina.....	NC...NO							.....0	.....
35.	North Dakota.....	ND...NO							.....0	.....
36.	Ohio.....	OH...NO							.....0	.....
37.	Oklahoma.....	OK...NO							.....0	.....
38.	Oregon.....	OR...NO							.....0	.....
39.	Pennsylvania.....	PA...NO							.....0	.....
40.	Rhode Island.....	RI...NO							.....0	.....
41.	South Carolina.....	SC...NO							.....0	.....
42.	South Dakota.....	SD...NO							.....0	.....
43.	Tennessee.....	TN...NO							.....0	.....
44.	Texas.....	TX...NO							.....0	.....
45.	Utah.....	UT...NO							.....0	.....
46.	Vermont.....	VT...NO							.....0	.....
47.	Virginia.....	VA...NO							.....0	.....
48.	Washington.....	WA...NO							.....0	.....
49.	West Virginia.....	WV...NO							.....0	.....
50.	Wisconsin.....	WI...NO							.....0	.....
51.	Wyoming.....	WY...NO							.....0	.....
52.	American Samoa.....	AS...NO							.....0	.....
53.	Guam.....	GU...NO							.....0	.....
54.	Puerto Rico.....	PR...NO							.....0	.....
55.	U.S. Virgin Islands.....	VI...NO							.....0	.....
56.	Northern Mariana Islands.....	MP...NO							.....0	.....
57.	Canada.....	CN...NO							.....0	.....
58.	Aggregate Other alien.....	...XXX	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
59.	Subtotal.....	...XXX	.5,320,047,149	.545,730,597	.....0	...318,991,899	.....0	.....0	..6,184,769,645	.....0
60.	Reporting entity contributions for Employee Benefit Plans.....	...XXX							.....0	
61.	Total (Direct Business).....	(a).....1	.5,320,047,149	.545,730,597	.....0	...318,991,899	.....0	.....0	..6,184,769,645	.....0

DETAILS OF WRITE-INS

5801.	.....								.....0	.....
5802.	.....								.....0	.....
5803.	.....								.....0	.....
5898.	Summary of remaining write-ins for line 58.....		.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
5899.	Total (Lines 5801 thru 5803 + 5898) (Line 58 above)....		.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0

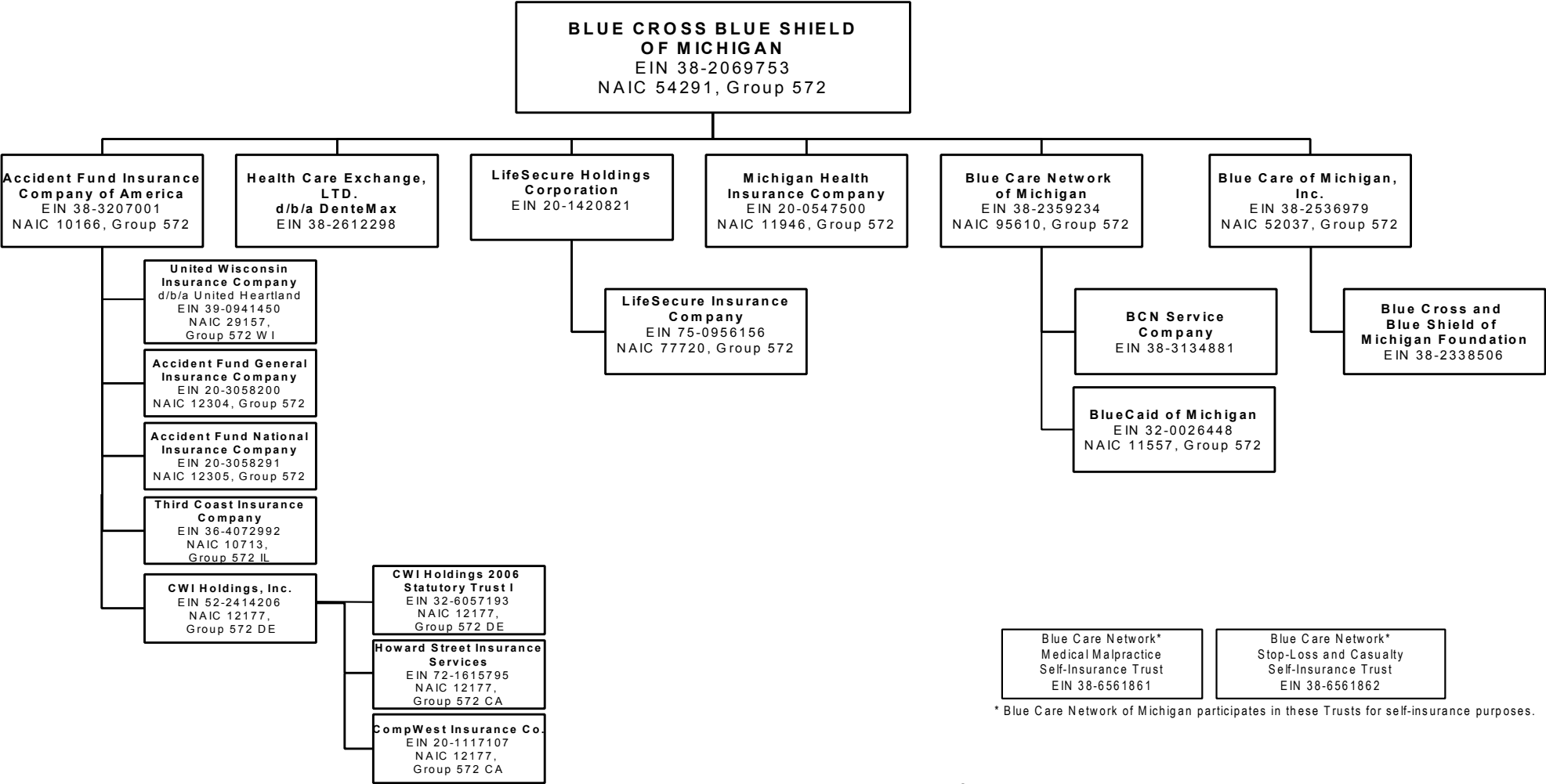
Explanation of basis of allocation by states, premiums by state, etc.

(a) Insert the number of yes responses except for Canada and Other Alien.

**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**  
PART 1 - ORGANIZATIONAL CHART



**SUBSIDIARY & AFFILIATE ORGANIZATION CHART**



All entities that do not reflect a particular state abbreviation are domiciled in Michigan.

**SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP**

PART 1 - ORGANIZATIONAL CHART

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([http://www.naic.org/committees\\_e\\_app\\_blanks.htm](http://www.naic.org/committees_e_app_blanks.htm))  
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